

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS: Standard & Poor's: AAA
Fitch: AAA
(See "RATINGS" herein)

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.



\$4,660,000
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
WASTEWATER REVENUE BONDS
SERIES 2007A
City of Anderson (Shasta County)
City of Lakeport (Lake County)

Dated: Date of Delivery

Due: October 1, as shown below

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership in the Bonds but will receive credit balances on the books of their respective nominees. Interest on the Bonds, which is payable semiannually on each April 1 and October 1, commencing October 1, 2008, and the principal thereof are payable by the Trustee (as defined herein) to Cede & Co. and such interest and principal payments are to be disbursed to the beneficial owners of the Bonds through their nominees.

The Bonds are subject to optional and mandatory redemption as more fully described herein.

The Bonds will be issued and secured pursuant to the terms of an Indenture, dated as of December 1, 2007 (the "Indenture"), by and between the California Statewide Communities Development Authority (the "Authority") and Union Bank of California, N.A., as trustee (the "Trustee"). The Bonds are special obligations of the Authority payable solely from Revenues consisting generally of the Installment Payments to be made by certain local public agencies described herein (the "Program Participants") and from amounts on deposit in certain funds and accounts held under the Indenture. No other funds of the Authority are pledged to or available for payment of the principal of or interest on the Bonds.

The Installment Payments securing the Bonds are special obligations of the Program Participants under the respective Installment Purchase Agreements secured by pledges of the System Net Revenues of the System of the respective Program Participant. The pledge of System Net Revenues under each Installment Purchase Agreement secures only the obligation to pay Installment Payments and other obligations under that particular Installment Purchase Agreement. Individual Program Participants are not obligated to make up for any deficiency in the Installment Payments of other Program Participants. Individual Program Participants may have outstanding obligations secured by System Revenues on a parity with the Installment Payments and may enter into additional obligations secured by System Revenues on a parity with the Installment Payments subject to certain conditions under their Installment Purchase Agreements.

Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or the Authority or any Program Participant or any member of the Authority is pledged to the payment of the Bonds. The Bonds do not constitute a debt, liability or obligation of the State of California or any public agency thereof (other than the Authority payable solely from the Revenues) or any Program Participant or any member of the Authority, and neither the directors of the Authority nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance. The Authority has no taxing power.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



This cover page contains certain information for reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision. See "Risk Factors" herein for a discussion of certain of the risks to timely payment of the Bonds.

MATURITY SCHEDULE

\$1,235,000 Serial Bonds

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2008	\$ 35,000	4.0%	3.10%	2014	\$110,000	4.0%	3.50%
2009	85,000	4.0	3.15	2015	110,000	4.0	3.60
2010	95,000	4.0	3.20	2016	120,000	4.0	3.70
2011	95,000	4.0	3.25	2017	120,000	4.0	3.85
2012	100,000	4.0	3.30	2018	125,000	4.0	3.95
2013	105,000	4.0	3.40	2019	135,000	4.0	4.10
				\$1,480,000 4.50% Term Bonds due October 1, 2028 Yield 4.710%			
				\$1,115,000 4.70% Term Bonds due October 1, 2033 Yield 4.82%			
				\$830,000 4.75% Term Bonds due October 1, 2038 Yield 4.86%			

The Bonds are offered when, as and if delivered and received by the Underwriter, subject to the approval as to their legality by Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel, and certain other conditions. Hawkins Delafield & Wood LLP has also served as Disclosure Counsel. Certain legal matters will be passed upon for each of the Program Participants by its respective counsel. Certain matters will be passed on for the Authority by Orrick, Herrington & Sutcliffe LLP. It is anticipated that the Bonds will be available for delivery to The Depository Trust Company in New York, New York on or about January 3, 2008.

HENDERSON CAPITAL PARTNERS, LLC

Dated: December 18, 2007

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from official sources other than the Authority (except for the section "THE AUTHORITY" and the first paragraph of the section "LITIGATION") which are believed to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information provided herein since the date hereof.

Other than with respect to information concerning Financial Security Assurance Inc. (the "Bond Insurer") contained under the caption "Bond Insurance" and Appendix E, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
WASTEWATER REVENUE BONDS
SERIES 2007A**

**CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY**

Chris K. McKenzie, Chairman
Paul McIntosh, Vice Chairman
Daniel Harrison, Secretary
T.E. Sweet, Treasurer
Jean Hurst, Member
Paul Hahn, Member
Gus Vina, Member

PROGRAM PARTICIPANTS

City of Anderson (Shasta County)
City of Lakeport (Lake County)

BOND COUNSEL

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San Francisco, California

DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP
San Francisco, California

TRUSTEE

Union Bank of California, N.A.
San Francisco, California

AUTHORITY COUNSEL

Orrick, Herrington & Sutcliffe LLP

POOL VERIFICATION AGENT

Grant Thornton LLP
Minneapolis, Minnesota

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TABLE OF CONTENTS

	<i>Page</i>
INTRODUCTION.....	1
PROGRAM PARTICIPANTS AND FINANCING PLAN.....	3
ESTIMATED SOURCES AND USES OF FUNDS.....	4
THE BONDS.....	5
BOOK-ENTRY ONLY SYSTEM.....	5
TRANSFERS AND EXCHANGES UPON TERMINATION OF BOOK-ENTRY ONLY SYSTEM.....	6
SINKING FUND REDEMPTION.....	6
OPTIONAL REDEMPTION.....	7
REDEMPTION PROCEDURES.....	8
DEBT SERVICE SCHEDULE.....	9
SECURITY FOR THE BONDS.....	11
SECURITY UNDER THE INDENTURE.....	11
RESERVE FUND.....	12
PLEDGE OF SYSTEM NET REVENUES UNDER THE INSTALLMENT PURCHASE AGREEMENTS.....	12
ADDITIONAL DEBT TESTS UNDER INSTALLMENT PURCHASE AGREEMENTS.....	14
RATE COVENANT UNDER THE INSTALLMENT PURCHASE AGREEMENTS.....	15
RATE STABILIZATION FUND UNDER THE INSTALLMENT PURCHASE AGREEMENTS.....	15
BOND INSURANCE.....	16
THE MUNICIPAL BOND INSURANCE POLICY.....	16
THE BOND INSURER.....	16
CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.....	17
ARTICLE XIII B.....	17
PROPOSITION 218.....	17
FUTURE INITIATIVES.....	19
RISK FACTORS.....	19
GENERAL.....	19
NO CROSS-COLLATERALIZATION.....	20
EARTHQUAKES, FLOODS, FIRES, DROUGHT OR OTHER NATURAL CONDITIONS.....	20
INVESTMENT OF FUNDS.....	20
LIMITATIONS ON REMEDIES AND BANKRUPTCY.....	20
THE AUTHORITY.....	21
LEGAL MATTERS.....	21
LITIGATION.....	21
TAX MATTERS.....	22
OPINION OF BOND COUNSEL.....	22
CERTAIN ONGOING FEDERAL TAX REQUIREMENTS AND COVENANTS.....	23
CERTAIN COLLATERAL FEDERAL TAX CONSEQUENCES.....	23
ORIGINAL ISSUE DISCOUNT.....	23
BOND PREMIUM.....	24
INFORMATION REPORTING AND BACKUP WITHHOLDING.....	24

TABLE OF CONTENTS

	<i>Page</i>
MISCELLANEOUS	25
CONTINUING DISCLOSURE	25
RATINGS	26
UNDERWRITING	26
POOL VERIFICATION.....	26
MISCELLANEOUS.....	26
EXCERPTS FROM PARTICIPANTS' FINANCIAL STATEMENTS.....	APPENDIX A
INFORMATION REGARDING PROGRAM PARTICIPANTS.....	APPENDIX B
DEFINITIONS AND SUMMARY OF LEGAL DOCUMENTS.....	APPENDIX C
FORM OF BOND COUNSEL'S OPINION.....	APPENDIX D
FORM OF MUNICIPAL BOND INSURANCE POLICY	APPENDIX E
INFORMATION CONCERNING DTC	APPENDIX F
FORMS OF CONTINUING DISCLOSURE CERTIFICATES	APPENDIX G

\$4,660,000
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
WASTEWATER REVENUE BONDS
SERIES 2007A

INTRODUCTION

General. This Official Statement, including the cover page and all appendices hereto, provides certain information concerning the sale and delivery of the California Statewide Communities Development Authority Wastewater Revenue Bonds, Series 2007A (the "Bonds"). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in Appendix C hereto entitled "DEFINITIONS AND SUMMARY OF LEGAL DOCUMENTS." This Introduction is subject in all respects to the more complete information contained in this Official Statement, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement.

The Bonds are being issued pursuant to an Indenture, dated as of December 1, 2007 (the "Indenture"), by and between the California Statewide Communities Development Authority (the "Authority") and Union Bank of California, N.A., as trustee (the "Trustee"). The Bonds are authorized pursuant to the terms of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law").

The Program. The Authority's Water and Wastewater Pooled Financing Program (the "Program") is available to California water and wastewater agencies to facilitate the financing or refinancing of capital improvements. The Program is available to California cities and special districts that operate water or wastewater enterprises. The Program team has assisted 45 local agencies borrow an aggregate of approximately \$437 million (these borrowings are all independently secured). The Authority is authorized pursuant to Chapter 5 of Division 7 of Title 1 of the California Government Code to issue Bonds to finance and refinance water and wastewater public capital improvements of local agencies located throughout California.

The Authority. The Authority is a joint exercise of powers agency created pursuant to the California Government Code on June 1, 1988. For more information regarding the Authority, see "THE AUTHORITY" herein.

Purpose. The Bonds are being sold to finance and refinance certain public capital improvements of the Program Participants (defined below) and to pay the costs incurred in issuing the Bonds. In connection with the financing of new capital improvements by certain of the Program Participants, a portion of the proceeds of the Bonds will be deposited into the Project Fund and used to acquire and construct new public capital improvements of certain of the Program Participants. For more information regarding the financing plan, see "PROGRAM PARTICIPANTS AND FINANCING PLAN" herein.

Security for the Bonds. The Bonds will be issued and secured pursuant to the terms of the Indenture. The Bonds are special obligations of the Authority payable solely from Revenues consisting generally of the Installment Payments to be made by certain local public agencies (the "Program Participants") and from amounts on deposit in certain funds and accounts held under the Indenture.

Financial and other information concerning the Program Participants is in Appendix B attached hereto. No funds of the Authority other than the Revenues are pledged to or available for payment of the principal of or interest on the Bonds.

The Installment Payments securing the Bonds are special obligations of the Program Participants under the respective Installment Purchase Agreements entered into by each of the Program Participants with the Authority and dated as of December 1, 2007 (the "Installment Purchase Agreements"). The Installment Payments under each Installment Purchase Agreement are separately secured by a pledge of the System Net Revenues of the Enterprise System of the respective Program Participant under such Installment Purchase Agreement. The pledge of System Net Revenues (as defined herein) under each Installment Purchase Agreement secures only the obligation to pay Installment Payments and other obligations under that particular Installment Purchase Agreement. Individual Program Participants are not obligated to make up for any deficiency in the Installment Payments of other Program Participants under their Installment Purchase Agreement.

Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or the Authority or any Program Participant or any member of the Authority is pledged to the payment of the Bonds. The Bonds do not constitute a debt, liability or obligation of the State of California or any public agency thereof (other than the Authority payable solely from the Revenues) or any Program Participant or any member of the Authority, and neither the directors of the Authority nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance. The Authority has no taxing power.

For more information regarding the security for the Bonds, see "SECURITY FOR THE BONDS" herein.

Additional Debt Test under Installment Purchase Agreements. Each Installment Purchase Agreement permits the Program Participant to enter into additional obligations secured by System Net Revenues on a parity basis with the related Installment Payments provided that certain conditions are satisfied as described herein. For more information concerning the additional debt tests under the Installment Purchase Agreements, see "SECURITY FOR THE BONDS — Additional Debt Tests under the Installment Purchase Agreements" herein.

Rate Covenant under Installment Purchase Agreements. Each Installment Purchase Agreement will require the Program Participant, to the fullest extent permitted by law, to fix, prescribe and collect rates and charges and maintain its operations such that System Net Revenues will be equal to at least 125% of the Installment Payments and other Parity Debt of such Program Participant during each Fiscal Year, all as more particularly described herein. For more information concerning the rate covenants see "SECURITY FOR THE BONDS — Rate Covenant under the Installment Purchase Agreements" herein.

The Reserve Fund. Concurrently with the issuance of the Bonds, the Trustee is to establish, maintain and hold in trust a separate fund designated as the Reserve Fund. Separate Reserve Accounts for each Program Participant are created within the Reserve Fund. The Reserve Account Requirements (defined herein) will be satisfied with Bond proceeds or an insurance policy (the "Reserve Policy") to be issued by Financial Security Assurance Inc. Moneys available in the Reserve Fund will be used and withdrawn solely for the purpose of paying principal of and interest on the Bonds in the event Installment Payments deposited with the Trustee are insufficient therefor. Within the Reserve Fund there will be

established separate Reserve Accounts relating to each Program Participant. Amounts in each Reserve Account will only be available for delinquencies in Installment Payments by the related Program Participant for which such Account is established. For more information concerning the Reserve Fund and the Reserve Accounts, see "SECURITY FOR THE BONDS — Reserve Fund" herein.

Bond Insurance. Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. will issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") with respect to the Bonds. The Municipal Bond Insurance Policy will unconditionally guarantee the payment of the principal of and interest on the Bonds which has become due for payment, but is unpaid by reason of nonpayment by the Authority. See "BOND INSURANCE" herein.

Redemption. The Bonds are subject to optional and mandatory sinking fund redemption as described herein. See "THE BONDS" herein.

Continuing Disclosure and Additional Information. Each Program Participant, subject to certain exceptions, will covenant in a Continuing Disclosure Certificate to provide certain financial information and operating data relating to such Program Participant and notices of certain events, if material. The Authority will covenant in a Continuing Disclosure Certificate to provide notices of certain events, if material. Such information and notices will be filed by the Trustee as Dissemination Agent with certain Nationally Recognized Municipal Securities Repositories. For more information concerning continuing disclosure, see "CONTINUING DISCLOSURE" and Appendix G attached hereto.

Each Program Participant regularly prepares a variety of reports, including audits, budgets and related documents. Any interested person may obtain a copy of certain reports, as available, from such Program Participant. Additional information regarding the Official Statement may be obtained by contacting the Trustee or the Program Participants.

PROGRAM PARTICIPANTS AND FINANCING PLAN

Program Participants. The Program Participants are described in the chart below. See Appendices A and B for information concerning the operations and finances of the Program Participants. See "THE BONDS — Debt Service Schedule" for a schedule of the Installment Payments due from each Program Participant under the Installment Purchase Agreements.

Schedule of Program Participants

<u>Participant</u>	<u>Type of System</u>	<u>Type of Project</u>	<u>Principal Amount</u>	<u>Final Installment Payment Date (October 1)</u>
City of Anderson	Wastewater	New Improvements	\$1,600,000	2033
City of Lakeport	Wastewater	Refunding and New Improvements	\$3,060,000	2038

Financing of New Improvements. A portion of the proceeds of the Bonds will be deposited into the Project Fund established under the Indenture and used to acquire and construct certain public capital improvements of certain of the Program Participants. Within the Project Fund there shall be established

separate, segregated Project Accounts with respect to such Program Participants. The chart below summarizes the financing of new improvements by such Program Participants.

Schedule of New Improvements

<u>Participant</u>	<u>Project</u>	<u>Project Account Amount</u>
City of Anderson	Capital Improvements	\$1,485,000
City of Lakeport	Capital Improvements	\$2,600,000

Refunding Plan. A portion of the proceeds from the sale of the Bonds will be used to prepay certain outstanding obligations of the City of Lakeport (the "Lakeport Refunded Obligations"). The Lakeport Refunded Obligations were issued to provide funds provide funds to finance projects related to its wastewater system. The chart below summarizes the terms of the prepayment of the Lakeport Refunded Obligations. Upon the payment of such proceeds, the Lakeport Refunded Obligations will no longer be outstanding.

The chart below summarizes the terms of the refunding and payment of the Refunded Obligations.

Schedule of Refunding

<u>Participant</u>	<u>Obligation</u>	<u>Principal Amount</u>	<u>Prepayment Date</u>	<u>Prepayment Price</u>
City of Lakeport	1978 Sewer Bonds	\$238,000	January 3, 2008	100%

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds relating to the Bonds.

Sources:	
Principal Amount of Bonds	\$4,660,000
Original Issue Discount	<u>(53,407)</u>
Total Sources	<u>\$4,606,593</u>
Uses:	
Project Fund ⁽¹⁾	\$4,085,000
1978 Sewer Bonds Refunding	244,015
Costs of Issuance ⁽²⁾	<u>277,578</u>
Total Uses	<u>\$4,606,593</u>

⁽¹⁾ See "PROGRAM PARTICIPANTS AND FINANCING PLAN" for a breakdown of the allocation of these amounts among the Program Participants.

⁽²⁾ Includes the premium for the Municipal Bond Insurance Policy and Reserve Policy and underwriter's discount, as well as certain legal, financing and printing costs.

THE BONDS

The Bonds will be dated their date of delivery and will be payable in the years and amounts and bear interest at the respective rates set forth on the cover page hereof, which interest shall be payable on April 1 and October 1 of each year, commencing October 1, 2008 (each, an "Interest Payment Date"). The Bonds will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See "Book-Entry Only System" below and Appendix F attached hereto.

In the event the book-entry only system described below is discontinued, each Bond will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless such date of registration is during the period from and including the Record Date next preceding an Interest Payment Date to and including such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or unless such date of registration is on or before the Record Date next preceding the first Interest Payment Date, in which event it shall bear interest from the delivery date of the Bonds; *provided*, that if at the time of registration of any Bond interest is then in default on the Outstanding Bonds, such Bond will bear interest from the Interest Payment Date to which interest previously has been paid or made available for payment on the Outstanding Bonds. Payment of interest on the Bonds due on or before the maturity or prior redemption of the Bonds will be made to the person whose name appears in the registration books maintained under the Indenture as the Owner thereof as of the close of business on the Record Date next preceding each Interest Payment Date, such interest to be paid by check mailed by first class mail, postage prepaid, on each Interest Payment Date to such Owner at his address as it appears in the registration books maintained under the Indenture, or, upon written request received prior to the Record Date next preceding an Interest Payment Date of an Owner of at least one million dollars (\$1,000,000) in aggregate principal amount of Bonds, by wire transfer in immediately available funds to an account within the continental United States of America designated by such Owner.

Book-Entry Only System

One fully registered Bond will be issued for each maturity of the Bonds in the principal amount of the Bonds of such maturity. It will be registered in the name of Cede & Co. and will be deposited with DTC. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

There can be no assurance that DTC participants or others will distribute payments with respect to the Bonds received by DTC or its nominee as the registered Owner, or any prepayment or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix F hereto for additional information concerning DTC.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event the book-entry system described above is abandoned, Bonds will be printed and delivered. Thereafter, any Bond may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the Indenture by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the corporate trust office of the Trustee, located in San Francisco, California, provided that for purposes of transfer, exchange, surrender, redemption and payment of Bonds such term shall mean the corporate trust office of the Trustee located in Los Angeles, California, or such other address as may be specified by the Trustee in a written notice to the Authority (the "Corporate Trust Office") accompanied by delivery of a duly executed written instrument of transfer. Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and maturity date. The Trustee will require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

The Trustee will not be required to register the transfer of (i) any Bond during the fifteen (15) day period preceding any date established by the Trustee for selection of Bonds for redemption, (ii) any Bonds which have been selected for redemption (except for any unredeemed portion of any of such Bonds) or (iii) any Bonds during the period from any Record Date to any Interest Payment Date.

The Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of the same maturity of other authorized denominations. The Trustee will require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. No such exchange will be made (i) during the fifteen (15) days preceding any date established by the Trustee for selection of Bonds for redemption, (ii) of any Bonds which have been selected for redemption (except for any unredeemed portion of any of such Bonds) or (iii) of any Bonds during the period from any Record Date to any Interest Payment Date.

Sinking Fund Redemption

Sinking Fund Installments are established under the Indenture for the mandatory redemption and payment of the Bonds which are payable on or before their specified maturity dates from Sinking Fund Installments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates (the "Term Bonds") maturing on October 1, 2028, October 1, 2033 and October 1, 2038, respectively, which payments will become due during the years ending on the dates and in the amounts set forth in the following schedule (except that if any Term Bonds have been optionally redeemed as described below, the amounts of such Sinking Fund Installments will be reduced by the principal amount of all such Term Bonds so optionally redeemed).

Term Bonds Due October 1, 2028

<u>Date</u> <u>(October 1)</u>	<u>Sinking Fund</u> <u>Installment</u>
2020	\$135,000
2021	145,000
2022	150,000
2023	155,000
2024	165,000
2025	170,000
2026	180,000
2027	185,000
2028	195,000*

*Maturity.

Term Bonds Due October 1, 2033

<u>Date</u> <u>(October 1)</u>	<u>Sinking Fund</u> <u>Installment</u>
2029	\$205,000
2030	215,000
2031	220,000
2032	230,000
2033	245,000*

*Maturity.

Term Bonds Due October 1, 2038

<u>Date</u> <u>(October 1)</u>	<u>Sinking Fund</u> <u>Installment</u>
2034	\$150,000
2035	160,000
2036	165,000
2037	175,000
2038	180,000*

*Maturity.

Optional Redemption

The Bonds maturing by their terms on or after October 1, 2019 are subject to optional redemption by the Authority on any date on or after October 1, 2018, prior to their respective stated maturity dates, as a whole or in part in such principal amounts and from such maturity dates as selected by the Authority at the direction of the applicable Program Participant, from funds derived by the Authority from any lawful source and deposited with the Trustee not less than five (5) days prior to the date of redemption, upon

mailed notice as provided in the Indenture, at a redemption price equal to the principal amount of the Bonds or the portions thereof redeemed, together with interest accrued thereon to the date fixed for redemption.

Redemption Procedures

Whenever less than all the Outstanding Bonds maturing on any one date are called for redemption at any one time, the Trustee will select the Bonds to be redeemed (from the Outstanding Bonds maturing on such date not previously selected for redemption) by lot in any manner which the Trustee deems fair; *provided*, that if less than all the Outstanding Term Bonds maturing on any one date are called for redemption from proceeds other than Sinking Fund Installment payments at any one time, the Trustee will calculate a reduction in the Sinking Fund Installment payments required to be made with respect to such Term Bonds (in an amount equal to the amount of Outstanding Term Bonds to be redeemed). Except for Sinking Fund Installment redemptions, the Authority will deposit with the Trustee money sufficient to redeem any Outstanding Bonds not later than five (5) days prior to the redemption date of the Bonds to be redeemed.

In lieu of redemption of any Term Bonds, amounts on deposit in the Sinking Fund allocable to such Term Bonds may be used and withdrawn by the Trustee at any time upon the request of the Authority at the direction of the applicable Program Participant for the purchase of such Term Bonds at public or private sale as and when and at such prices as the Authority at the direction of the applicable Program Participant may determine. The principal amount of any Term Bonds so purchased by the Trustee will be credited toward and will reduce the principal amount of the Term Bonds required to be redeemed on such Sinking Fund Payment Date.

Notice of redemption of any Bonds or any portions thereof will be mailed by first class mail, postage prepaid, by the Trustee not less than 30 nor more than 60 days prior to the redemption date of such Bonds (i) to the respective Owners of the Bonds designated for redemption at their addresses appearing on the bond registration books kept by the Trustee, (ii) to the Information Services and (iii) to the Securities Depositories. Each notice of redemption will state the date of such notice, the Bonds to be redeemed, the date of issue of such Bonds, the redemption date, the redemption price, whether funds are then on deposit sufficient to pay the redemption price, the place of redemption (including the name and appropriate address), the CUSIP number (if any) of the maturity or maturities, and, if less than all Bonds of any such maturity are to be redeemed, the distinctive numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on such redemption date there will become due and payable on each of such Bonds the redemption price thereof or of the specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered at the Corporate Trust Office of the Trustee specified in the redemption notice as the place of redemption; *provided*, that failure by the Trustee to give notice to any one or more of the Information Services or Securities Depositories (each as defined in Appendix C — "DEFINITIONS AND SUMMARY OF LEGAL DOCUMENTS" attached hereto), or the insufficiency of any such notice or the failure of any Owner to receive any redemption notice mailed to such Owner or any immaterial defect in the notice so mailed shall not affect the sufficiency of the proceedings for the redemption of any Bonds.

From and after the date fixed for redemption of any Bonds or any portions thereof, if notice of such redemption will have been duly given and funds available for the payment of such redemption price of the Bonds or such portions thereof so called for redemption will have been duly provided, no additional interest will accrue on such Bonds or such portions thereof from and after the redemption date specified in such notice.

Debt Service Schedule

The following table shows the annual Installment Payments due from each Program Participant and the debt service requirements for the Bonds.

(Remainder of page intentionally left blank.)

Schedule of Annual Installment Payments and Debt Service on the Bonds

Annual Period Ending October 1	City of Anderson Installment Payments	City of Lakeport Installment Payments	Aggregate Principal	Aggregate Interest	Total
2008	\$ 87,312.11	\$102,405.78	\$ 35,000.00	\$ 154,717.89	\$189,717.89
2009	103,870.00	187,560.00	85,000.00	206,430.00	291,430.00
2010	107,470.00	190,560.00	95,000.00	203,030.00	298,030.00
2011	105,870.00	188,360.00	95,000.00	199,230.00	294,230.00
2012	104,270.00	191,160.00	100,000.00	195,430.00	295,430.00
2013	107,670.00	188,760.00	105,000.00	191,430.00	296,430.00
2014	105,870.00	191,360.00	110,000.00	187,230.00	297,230.00
2015	104,070.00	188,760.00	110,000.00	182,830.00	292,830.00
2016	107,270.00	191,160.00	120,000.00	178,430.00	298,430.00
2017	105,270.00	188,360.00	120,000.00	173,630.00	293,630.00
2018	103,270.00	190,560.00	125,000.00	168,830.00	293,830.00
2019	106,270.00	192,560.00	135,000.00	163,830.00	298,830.00
2020	104,070.00	189,360.00	135,000.00	158,430.00	293,430.00
2021	106,595.00	190,760.00	145,000.00	152,355.00	297,355.00
2022	103,895.00	191,935.00	150,000.00	145,830.00	295,830.00
2023	106,195.00	187,885.00	155,000.00	139,080.00	294,080.00
2024	108,270.00	188,835.00	165,000.00	132,105.00	297,105.00
2025	105,120.00	189,560.00	170,000.00	124,680.00	294,680.00
2026	106,970.00	190,060.00	180,000.00	117,030.00	297,030.00
2027	103,595.00	190,335.00	185,000.00	108,930.00	293,930.00
2028	105,220.00	190,385.00	195,000.00	100,605.00	295,605.00
2029	106,620.00	190,210.00	205,000.00	91,830.00	296,830.00
2030	107,625.00	189,570.00	215,000.00	82,195.00	297,195.00
2031	103,395.00	188,695.00	220,000.00	72,090.00	292,090.00
2032	104,165.00	187,585.00	230,000.00	61,750.00	291,750.00
2033	104,700.00	191,240.00	245,000.00	50,940.00	295,940.00
2034	-	189,425.00	150,000.00	39,425.00	189,425.00
2035	-	192,300.00	160,000.00	32,300.00	192,300.00
2036	-	189,700.00	165,000.00	24,700.00	189,700.00
2037	-	191,862.50	175,000.00	16,862.50	191,862.50
2038	-	188,550.00	180,000.00	8,550.00	188,550.00
Total	\$2,724,917.11	\$5,799,818.28	\$4,660,000.00	\$3,864,735.39	\$8,524,735.39

SECURITY FOR THE BONDS

Security under the Indenture

Under the Indenture, the Authority irrevocably transfers and assigns over to the Trustee all of the Installment Payments received by the Authority under the Installment Purchase Agreements and any and all rights it has to enforce the obligations of the Program Participants under the Installment Purchase Agreements. The Installment Payments received by the Trustee (the "Revenues") and in the other funds or accounts (except the Rebate Fund) are irrevocably pledged by the Authority to the punctual payment of the Bonds. The Revenues and such other funds and accounts are not permitted to be used for any other purpose while any of the Bonds remain Outstanding; subject to the provisions permitting the application thereof for the purposes and on the conditions and terms set forth in the Indenture. The Indenture provides that this pledge constitutes a first lien on the Revenues and such other money for the payment of the Bonds in accordance with the terms thereof.

The Indenture establishes a special fund known as the "Revenue Fund" held by the Trustee into which all Installment Payments are deposited. The money in the Revenue Fund is required to be transferred by the Trustee for deposit in the following respective funds (each of which is maintained with the Trustee) at the following times and in the following order of priority:

- (1) Interest Fund;
- (2) Principal Fund;
- (3) Sinking Fund; and
- (4) Reserve Fund.

Interest Fund. The Trustee will transfer for deposit in the Interest Fund before each Interest Payment Date, an amount of money from the Revenue Fund which is equal to the aggregate amount of the interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

Principal Fund. The Trustee will transfer for deposit in the Principal Fund before October 1 of each year, an amount of money from the Revenue Fund which, together with any money contained in the Principal Fund, is equal to the aggregate amount of the principal becoming due and payable on all Outstanding Serial Bonds on such Principal Payment Date.

Sinking Fund. The Trustee will transfer for deposit in the Sinking Fund before October 1 of each year as required, an amount of money from the Revenue Fund equal to the Sinking Fund Installments payable on such Sinking Fund Payment Date.

Reserve Fund. Concurrently with the issuance of the Bonds, the Trustee is to establish, maintain and hold in trust a separate fund designated as the Reserve Fund. Separate Reserve Accounts for each Program Participant are created within the Reserve Fund. In the event of a withdrawal of amounts from any Reserve Account within the Reserve Fund to make payments to the Interest Fund, Principal Fund or Sinking Fund, the Trustee will deposit in such Reserve Account moneys from the Revenue Fund necessary to restore the amount in such Reserve Account to the Reserve Account Requirement but only from the

Installment Payments made for such purpose by the Program Participants who are obligated under the Installment Purchase Agreements to restore said amounts; *provided*, that if there has been a draw upon any policy of insurance, surety bond, letter of credit or other comparable credit facility used to provide all or a portion of the Reserve Account Requirement, the Installment Payments will be applied to reimburse the provider of such instrument for payments made under such draw plus its expenses in connection therewith. Under each Installment Purchase Agreement, each Program Participant is obligated only to replenish the Reserve Fund for withdrawals therefrom caused by deficiencies in such Program Participant's payment of Installment Payments.

Reserve Fund

Under the Indenture, the Trustee holds in trust a separate fund designated as the Reserve Fund. The Reserve Fund consists of separate, segregated Reserve Accounts established for each Program Participant. The amount on deposit in each Reserve Account is required to be maintained in an amount at least equal to the Reserve Account Requirement for such Reserve Account. The Reserve Account Requirements for each Installment Purchase Agreement are set forth below. Each Reserve Account will be available only to cover a deficiency in the Installment Payments under the related Installment Purchase Agreement. Under the Installment Agreements, Program Participants will only be obligated to replenish draws on the Reserve Account relating to such Program Participant.

The Reserve Account Requirements will be satisfied with Bond proceeds or a debt service reserve fund insurance policy (the "Reserve Policy") to be issued by Financial Security Assurance Inc. See "BOND INSURANCE — The Bond Insurer" for information on Financial Security Assurance Inc. The total stated amount of the Reserve Policy is \$298,830 (only a portion of such amount is available to each Reserve Account as shown in the table below).

The table below describes the Reserve Account Requirement for each Reserve Account and whether such Reserve Account has been satisfied with Bond proceeds or the Reserve Policy.

Reserve Accounts Information

<u>Participant</u>	<u>Reserve Account Requirement</u>	<u>Bond Proceeds and/or Reserve Policy</u>
City of Anderson	\$102,602.58	Reserve Policy
City of Lakeport	\$196,227.42	Reserve Policy

Pledge of System Net Revenues under the Installment Purchase Agreements

Each Installment Purchase Agreement provides that all System Net Revenues and all amounts on deposit in the System Revenue Fund are irrevocably pledged to the payment of the Installment Payments and that the System Net Revenues will not be used for any other purpose while any of the Installment Payments remain unpaid. Each Installment Purchase Agreement provides that this pledge, together with the pledge created by any other Parity Debt (*i.e.*, the Installment Payments and any other parity obligations of the Program Participant), and subject to any permitted prior liens on Revenues, constitutes a lien on System Net Revenues for the payment of the Installment Payments and all other Parity Debt.

"System Net Revenues" is defined under the Installment Purchase Agreements as, for any period, System Revenues less Operation and Maintenance Costs for such period; *provided* that certain adjustments in the amount of System Net Revenue deemed collected during a Fiscal Year may be made in connection with amounts deposited in the rate stabilization fund established pursuant to each Installment Purchase Agreement (each a "Rate Stabilization Fund").

"System Revenues" is defined under the Installment Purchase Agreements as all gross income and revenue received or receivable by the Program Participant from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees (including connection fees), rates, charges and all amounts paid under any contracts received by or owed to the Program Participant in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System and all other income and revenue howsoever derived by the Program Participant from the ownership or operation of the System or arising from the System, subject to and after satisfaction of any Prior Liens. (For the City of Anderson, System Revenues shall include assessments collected for the Riverside East Limited Obligation Improvement Bonds).

"Operation and Maintenance Costs" is defined under the Installment Purchase Agreements as the reasonable and necessary costs paid or incurred by the Program Participant for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, and including all administrative costs of the Program Participant that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the Program Participant or charges required to be paid by it to comply with the terms of the Agreement or of any Supplemental Agreement or of any resolution authorizing the execution of any Parity Debt, such as compensation, reimbursement and indemnification of the Trustee and the Authority and fees and expenses of Independent Certified Public Accountants; but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

In order to carry out and effectuate such pledge, each Program Participant agrees and covenants that all System Revenues will be deposited when and as received in a special fund designated as the "System Revenue Fund" of such Program Participant, which fund the Program Participant agrees and covenants to maintain and to hold separate and apart from other funds so long as any Installment Payments remain unpaid. The Program Participant is required to pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) from the moneys in the System Revenue Fund as such Operation and Maintenance Costs become due and payable. Thereafter, all remaining moneys in the System Revenue Fund are required to be set aside by the Program Participant at the following times for the transfer to the following respective special funds in the following order of priority:

Installment Payments. Not later than each Installment Payment Date (*i.e.*, March 15 and September 15 of each year), the Program Participant is required, from the

moneys in the System Revenue Fund, to transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The Program Participant will also, from the moneys in the System Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Parity Obligation Payments in accordance with the provisions of any Parity Obligation.

Reserve Account. On or before the first Business Day of each month, the Program Participant is required, from the remaining moneys in the System Revenue Fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, to transfer to the Trustee for deposit in the Revenue Fund for application to the Program Participant Reserve Account within the Reserve Fund in accordance with the Indenture and to the applicable trustee for such other reserve accounts, if any, as may have been established in connection with Parity Obligations that sum, if any, necessary to restore the Reserve Account to an amount equal to the Reserve Account Requirement and otherwise replenish the Reserve Fund for any withdrawals to pay the Installment Payments due under the related Installment Purchase Agreement and necessary to restore such other reserve accounts to an amount equal to the amount required to be maintained therein; *provided* that payments to restore the Reserve Account after a withdrawal will be in an amount equal to 1/12 of the aggregate amount needed to restore the Reserve Account to the Reserve Account Requirement as of the date of the withdrawal.

"Business Day" is defined under the Installment Purchase Agreement as any day other than a Saturday, a Sunday or a day on which banks located in the city where the Corporate Trust Office is located are required or authorized to remain closed

Surplus. Moneys on deposit in the System Revenue Fund not necessary to make any of the payments required above, may be expended by the Program Participant at any time for any purpose permitted by law, including but not limited to payments with respect to Subordinate Obligations and deposits to the Rate Stabilization Fund.

No Cross-Collateralization Among Program Participants. No Program Participant has covenanted to pay the Installment Payments of any other Program Participant or to make up any deficit in the Reserve Fund which occurs by reason of another Program Participant's nonpayment. For this reason, a default in the payment of Installment Payments by any single Program Participant could cause a default in the payments of principal and interest on the Bonds if moneys in such Program Participant's Reserve Account are insufficient to make up the deficit caused by such nonpayment.

Additional Debt Tests under Installment Purchase Agreements

Each Installment Purchase Agreement provides that the Program Participant which is a party to such Agreement may at any time enter into obligations secured by a lien and charge upon the System Net Revenues of such Program Participant equal to and on a parity with the lien and charge securing the Installment Payments, but only if the System Net Revenues for the last completed Fiscal Year or any 12 consecutive months within the last 18 months preceding the date of execution of such Parity Debt, as shown by a Certificate of the Program Participant on file with the Trustee, plus an allowance for increased

System Net Revenues arising from any increase in the rates, fees and charges of the System which became effective prior to the date of the execution of such Parity Debt but which, during all or any part of such 12 month period, was not in effect, in an amount equal to the amount by which the System Net Revenues would have been increased if such increase in rates, fees and charges had been in effect during the whole of such 12 month period, as shown by a Certificate of the Program Participant on file with the Trustee, produce a sum equal to at least 125% of the Maximum Annual Debt Service as calculated after the execution of such Parity Debt; *provided*, that in the event that all or a portion of such Parity Debt is to be issued for the purpose of refunding and retiring any Parity Debt then Outstanding, interest and principal payments on the Parity Debt to be so refunded and retired from the proceeds of such Parity Debt being issued shall be excluded from the foregoing computation of Maximum Annual Debt Service; *provided further*, that the Program Participant may at any time issue Parity Debt without compliance with the foregoing conditions if the Annual Debt Service for each Fiscal Year during which such Parity Debt is Outstanding will not be increased by reason of the issuance of such Parity Debt; and provided further, an adjustment will be made in the amount of System Net Revenues for amounts deposited into or withdrawn from the Rate Stabilization Fund of the Program Participant.

Rate Covenant under the Installment Purchase Agreements

Each Installment Purchase Agreement provides that the related Program Participant will fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year:

- (i) All current Operation and Maintenance Costs.
- (ii) The Installment Payments and payments for other Parity Debt and the payment of the Subordinate Obligations as they become due and payable.
- (iii) All payments required for compliance with the terms of the Installment Purchase Agreement, including restoration of the Program Participant Reserve Account to an amount equal to the Reserve Account Requirement, and of any Supplemental Agreement.
- (iv) All payments to meet any other obligations of the Program Participant which are charges, liens or encumbrances upon, or payable from, the System Net Revenues.

In addition to the foregoing requirements, the Program Participant will, to the maximum extent permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year equal to at least 125% of the Annual Debt Service in such Fiscal Year; *provided*, an adjustment will be made to the amount of System Net Revenues for amounts deposited into or withdrawn from the Rate Stabilization Fund of the Program Participant.

Rate Stabilization Fund under the Installment Purchase Agreements

Each Installment Purchase Agreement creates a Rate Stabilization Fund. Each Program Participant may, during or within 210 days after a Fiscal Year, deposit System Net Revenues attributable to such Fiscal Year (on the basis of Generally Accepted Accounting Principles) into the Rate Stabilization Fund. The Program Participant may at any time withdraw moneys from the Rate Stabilization Fund. System Net

Revenues deposited into the Rate Stabilization Fund will not be taken into account as System Net Revenues for purposes of the calculations required by the covenants in the Installment Purchase Agreement relating to System Net Revenue coverage and additional parity debt in the Fiscal Year to which such deposit is attributable, and amounts withdrawn from the Rate Stabilization Fund, during or within 210 days after a Fiscal Year, may be taken into account as Revenues for purposes of the calculations required by such covenants in such Fiscal Year.

BOND INSURANCE

The following information has been furnished by Financial Security Assurance Inc. (the "Bond Insurer") for use in this Official Statement. No representation is made by the Program Participants, the Authority or the Underwriter as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in the condition of the Bond Insurer subsequent to the date hereof. Reference is made to Appendix E for a specimen of the Bond Insurer's municipal bond insurance policy.

The Municipal Bond Insurance Policy

Concurrently with the issuance of the Bonds, the Bond Insurer will issue its Municipal Bond Insurance Policy for the Bonds. The Municipal Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Municipal Bond Insurance Policy included as Appendix E to this Official Statement.

The Municipal Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Bond Insurer

The Bond Insurer is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or the Bond Insurer is liable for the obligations of the Bond Insurer.

At September 30, 2007, the Bond Insurer's combined policyholders' surplus and contingency reserves were approximately \$2,691,965,000 and its total net unearned premium reserve was approximately \$2,201,808,000 in accordance with statutory accounting principles. At September 30, 2007, the Bond Insurer's consolidated shareholder's equity was approximately \$2,975,654,000 and its total net unearned premium reserve was approximately \$1,721,678,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of the Bond Insurer included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2006 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of the Bond Insurer included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to

Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Municipal Bond Insurance Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds. The Bond Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the Bond Insurer has provided to the Authority the information presented under this caption for inclusion in the Official Statement.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978/79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The Program Participants are of the opinion that their service charges do not exceed the costs they reasonably bear in providing such services and therefore are not subject to the limits of Article XIII B.

Proposition 218

An initiative measure known as Proposition 218 was approved by the voters of the State of California at the November 5, 1996 general election. Proposition 218 added Articles XIII C and Article XIII D to the California Constitution.

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, a Program Participant's ability to increase such fee or charge could be limited by a majority protest. The Program Participants have complied with these procedures with respect to their current charges.

In addition, Article XIID includes a number of requirements applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted. The Program Participants believe that their current fees and charges comply with these requirements.

Article XIID provides that stand-by charges, whether characterized as charges or assessments, are classified as assessments and cannot be imposed without compliance with the provisions of Proposition 218 pertaining to assessments.

Under the Installment Purchase Agreements, each Program Participant has covenanted, to the maximum extent permitted by law, to establish and collect sufficient rates and charges to comply with the rate covenants thereunder. See "SECURITY FOR THE BONDS — Rate Covenant under the Installment Purchase Agreement" herein. For information concerning the Program Participants, including projections of future rate increases, see Appendix B attached hereto. As discussed above, Proposition 218 could limit a Program Participant's ability to raise rates.

Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIID defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property-related service" is defined as "a public service having a direct relationship to property ownership."

On July 24, 2006, the California Supreme Court concluded in *Bighorn-Desert View Water Agency v. Beringson* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Section 3 of Article XIIC, which establishes that the initiative power of the electorate "shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." Therefore, the Court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. However, the Court specifically noted that it was not holding that the initiative power is free of all limitations; and the Court stated that it was *not* determining whether the electorate's initiative power is subject to certain statutory provisions applicable to the Bighorn-Desert View Water Agency that

require water service charges to be set at certain minimum rates to cover operations and maintenance costs, debt service and other costs.

No courts have ruled on the question of whether Article XIII C grants to the voters the power to repeal or reduce rates and charges in a manner which would impair a Program Participant's contractual obligations, including but not limited to, an obligation to pay installment payments. Courts have held under certain circumstances that the Contracts Clause of the United States Constitution prohibits public agencies from enacting laws that impair obligations of the public agencies under their own contracts. There can be no assurance of the availability of particular remedies adequate to protect the interests of Bond Owners. Remedies available to Bond Owners in the event of a default are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

Certain aspects of the impact of Proposition 218 in these and other areas remain unclear as court decisions interpreting the application of Proposition 218 to various circumstances continue to be published on a frequent basis.

Future Initiatives

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the Program Participants' revenues or ability to increase revenues.

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

General

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Revenues and certain funds under the Indenture. Revenues consist of Installment Payments to be made by Program Participants. The obligation of each Program Participant to make Installment Payments is secured by the System Net Revenues of such Program Participant. No assurance can be made that System Net Revenues, estimated or otherwise, will be realized by any Program Participant in an amount sufficient to pay the Installment Payments of such Program Participant. The realization of future System Net Revenues is subject to, among other things, the capabilities of management of the Program Participants, the ability of the Program Participants to provide services to its users, and the ability of the Program Participants to establish and maintain charges sufficient to provide the required debt service coverage as well as pay for Operation and Maintenance Costs.

Among other matters, inadequate sources of water, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could

adversely affect the amount of System Revenues realized by the Program Participants and ultimately the ability of the Program Participants to pay the Installment Payments.

No Cross-Collateralization

No Program Participant has covenanted to pay the Installment Payments of any other Program Participant or to make up any deficit in the Reserve Fund which occurs by reason of another Program Participant's nonpayment. For this reason, a default in the payment of Installment Payments by any single Program Participant could cause a default in the payments of principal and interest on the Bonds if moneys in such Program Participant's Reserve Account are insufficient to make up the deficit caused by such nonpayment.

Earthquakes, Floods, Fires, Drought or Other Natural Conditions

Earthquakes, floods, fires or other natural disasters could interrupt operation of the Systems of the Program Participants and cause increased costs, thereby interrupting the ability of the Program Participants to realize System Net Revenues sufficient to pay the Installment Payments. Many of the Program Participants are located in active seismic areas and, in certain cases, flood zones. The Program Participants are not obligated under the Installment Purchase Agreements to have earthquake or flood insurance. Further, Southern California and certain southwestern states are currently experiencing drought. Such drought may negatively impact the cost and availability of water for the Program Participants.

Investment of Funds

All funds and accounts held under the Indenture are required to be invested in Authorized Investments as provided under the Indenture. See Appendix C attached hereto for a summary of the definition of Authorized Investments. See the Program Participants' financial statements attached as Appendix A for a summary of the Program Participants' investments as of the date of such financial statements. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the Program Participants could have a material adverse effect on the security of the Bonds.

Limitations on Remedies and Bankruptcy

The rights and remedies provided in the Indenture and the Installment Purchase Agreements may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix D), will be similarly qualified.

The enforcement of the remedies provided in the Installment Purchase Agreements and the Indenture could prove both expensive and time consuming. In the event of a default, the Trustee is not empowered to sell the Projects in order to pay debt service on the Bonds. In addition, the rights and

remedies provided in the Installment Purchase Agreements and Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If a Program Participant were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Installment Purchase Agreements and from taking any steps to collect amounts due from the Program Participant under the Installment Purchase Agreements.

THE AUTHORITY

The California Statewide Communities Development Authority (the "Authority") is a joint exercise of powers authority duly organized and operating pursuant to Article 1 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, and pursuant to an agreement dated as of June 1, 1988, by and among various cities, counties, and special districts, and is qualified to issue the Bonds under the Law.

Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or the Authority or any Program Participant or any member of the Authority is pledged to the payment of the Bonds. The Bonds do not constitute a debt, liability or obligation of the State of California or any public agency thereof (other than the Authority payable solely from the Revenues) or any Program Participant or any member of the Authority, and neither the officers of the Authority nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance. The Authority has no taxing power.

LEGAL MATTERS

The legality and enforceability of the Bonds are subject to the approval of Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel to the Authority. The form of such legal opinion is attached hereto as Appendix D. Hawkins Delafield & Wood LLP has also served as Disclosure Counsel. Certain legal matters will be passed upon by the counsel to the Authority and the counsels to each Program Participant.

LITIGATION

The Authority will certify to the effect that, to the best knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending other than as described in this Official Statement (i) in any way questioning the existence of the Authority or the titles of the officers of the Authority to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Bonds or the related legal documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest on the Bonds from taxation or contesting the powers of the Authority to assign and pledge the Installment Payments; or (iii) contesting the completeness or accuracy of this Official Statement (excluding all appendices) or any supplement or amendment thereto or asserting that this Official Statement (excluding all appendices) contained any untrue statement of a material fact or omitted

to state any material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading.

Each Program Participant will certify to the effect that, other than as described in this Official Statement, including all appendices hereto, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the Program Participant, threatened (i) in any way questioning the existence of the Program Participant or the titles of the officers of the Program Participant to their respective offices; (ii) in any way contesting or affecting the validity of the legal documents relating to the Bonds entered into by the Program Participant or the consummation of the transactions contemplated thereby; (iii) which may result in any material adverse change relating to the finances or operations of the Program Participant; or (iv) contesting the completeness or accuracy of this Official Statement or any supplement or amendment hereto or asserting that this Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading. See Appendix B for certain information related to any litigation affecting the Program Participants.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "Miscellaneous" below for a discussion of certain litigation that may relate to this State of California tax exemption.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price(s) set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale,

exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification”, or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding”, which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the

Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds.

Prospective purchasers should be aware that the United States Supreme Court has agreed to review *Davis v. Dep't. of Revenue of the Finance and Admin. Cabinet*, 197 S.W. 3d 557 (Ky. App. 2006), cert. granted 2007 U.S. LEXIS 5914 (May 21, 2007), a decision of a Kentucky appellate court, which held that provisions of Kentucky tax law that provided more favorable income tax treatment for holders of bonds issued by Kentucky municipal bond issuers than for holders of non-Kentucky municipal bonds violated the Commerce Clause of the United States Constitution. State of California statutes provide more favorable State of California income tax treatment for holders of bonds issued by the State of California and its political subdivisions, including the Bonds, than for bonds issued by other states and their political subdivisions. If the United States Supreme Court were to affirm the holding of the Kentucky appellate court, subsequent State of California judicial decisions or legislation designed to ensure the constitutionality of State of California tax law could, among other alternatives, adversely affect the State of California tax exemption of outstanding bonds, including the Bonds, to the extent constitutionally permissible, or result in the exemption from State of California income tax of interest on certain bonds issued by other states and their political subdivisions, either of which actions could affect the market price or marketability of the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

CONTINUING DISCLOSURE

The Program Participants have covenanted in Continuing Disclosure Certificates for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to Program Participants by not later than the 210 days following the end of the fiscal year (currently their fiscal years end on June 30) (the "Program Participant Annual Reports"), commencing with the fiscal year ending June 30, 2007, and to provide notices of the occurrence of certain enumerated events, if material.

The Authority has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Bonds to provide notices of the occurrence of certain enumerated events, if material.

The Program Participant Annual Reports and the notices of material events will be filed by the Trustee as Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth in Appendix G—"FORMS OF CONTINUING DISCLOSURE CERTIFICATES" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934.

RATINGS

Upon the issuance by Financial Security Assurance Inc. of its municipal bond insurance policy (the "Municipal Bond Insurance Policy"), Standard & Poor's Ratings Services and Fitch Ratings will assign the Bonds the rating of "AAA". These ratings are based upon the Municipal Bond Insurance Policy. See "BOND INSURANCE" herein. Generally, rating agencies base their ratings on information and material furnished directly to them and on investigations, studies and assumptions made by them. The ratings reflect only the views of such organization and an explanation of the significance of the ratings may be obtained from Standard & Poor's Ratings Services, 25 Broadway, New York, New York 10004 and from Fitch Ratings, 33 Whitehall Street, 27th Floor, New York, New York 10004, respectively. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds will be purchased by Henderson Capital Partners, LLC (the "Underwriter") pursuant to a Bond Purchase Contract, under which the Underwriter agrees to purchase all of the Bonds for an aggregate purchase price of \$4,538,292.60 (which represents the principal amount of the Bonds less net original issue discount of \$53,407.40 and less an Underwriter's discount of \$68,300.00).

The initial public offering prices stated on the cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

POOL VERIFICATION

Upon delivery of the Bonds, Grant Thornton LLP, a firm of independent certified public accountants, will have verified the mathematical accuracy of certain computations based upon certain information and assertions provided to them by the Underwriter relating to (a) the adequacy of the Program Participants' scheduled Installment Payments to pay when due all of the scheduled principal of and interest on the Bonds and (b) the computations of yield of the Bonds which support Bond Counsel's opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes.

MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Authority and the Program Participants.

**CALIFORNIA STATEWIDE
COMMUNITIES DEVELOPMENT
AUTHORITY**

By: /s/ D. B. Harrison
 Member of the Commission

CITY OF ANDERSON

By: /s/ Scott Morgan
 City Manager

CITY OF LAKEPORT

By: /s/ Jerry Gillham
 City Manager

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APPENDIX A

EXCERPTS FROM PROGRAM PARTICIPANTS' FINANCIAL STATEMENTS

CITY OF ANDERSON
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 YEAR ENDED JUNE 30, 2006

NYSTROM & COMPANY LLP
 CERTIFIED PUBLIC ACCOUNTANTS

CITY OF ANDERSON
 TABLE OF CONTENTS
 JUNE 30, 2006

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	1
Organizational Chart	5
City Council and Administrative Personnel	6
FINANCIAL SECTION	
Independent Auditors' Report	7
Management's Discussion and Analysis	9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets, June 30, 2006	22
Statement of Activities, For the Year Ended June 30, 2006	24
Fund Financial Statements:	
Balance Sheet – Governmental Funds, June 30, 2006	26
Reconciliation of Fund Balances to Net Assets June 30, 2006	32
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, For the Year Ended June 30, 2006	33
Reconciliation of Change in Fund Balances to Change in Net Assets, For the Year Ended June 30, 2006	39

CITY OF ANDERSON
 TABLE OF CONTENTS
 JUNE 30, 2006

	Page
FINANCIAL SECTION (Continued)	
Basic Financial Statements: (Continued)	
Fund Financial Statements: (Continued)	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund and Major Special Revenue Funds, For the Year Ended June 30, 2006	40
Statement of Net Assets – Proprietary Funds, June 30, 2006	50
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds, For the Year Ended June 30, 2006	52
Statement of Cash Flows – Proprietary Funds For the Year Ended June 30, 2006	54
Statement of Fiduciary Assets and Liabilities – Agency Funds June 30, 2006	57
Notes to the Financial Statements	58
Combining and Individual Fund Financial Statements:	
Combining Balance Sheet – Nonmajor Governmental Funds, June 30, 2006	85
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds, For the Year Ended June 30, 2006	93
Combining Statement of Fiduciary Assets and Liabilities – Agency Funds June 30, 2006	102
Combining Statement of Changes in Fiduciary Assets and Liabilities – Agency Funds For the Year Ended June 30, 2006	103

CITY OF ANDERSON
 TABLE OF CONTENTS
 JUNE 30, 2006

	Page
GAO AND SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	107
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	108
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance and in Accordance with OMB Circular A-133	110
Schedule of Findings and Questioned Costs	112
Summary Schedule of Prior Audit Findings	114
STATISTICAL SECTION	115 – 142

INTRODUCTORY SECTION

March 5, 2007

Citizens of Anderson
Honorable Mayor and Members of the City Council and
Citizens of the City of Anderson:

State law requires that all general purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue for the City of Anderson the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the City of Anderson. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Anderson has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of

Anderson's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Anderson's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Anderson's financial statements have been audited by Nystrom & Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Anderson for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Anderson's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Anderson was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but

also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The independent auditor's "Single Audit" reports are presented herein.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Anderson's MD&A can be found immediately following the report of the independent auditors.

General Information

The City of Anderson has a population of 10,677 and is located on the west bank of the Sacramento River in southern Shasta County. It is ten miles south of Redding, population 89,973, and twenty miles north of Red Bluff, population 13,650. Anderson is situated along Interstate 5 and is 150 miles north of Sacramento, the state capital. The City was incorporated January 16, 1956, as a general law city and it employs the council-manager form of government. The governing council is responsible, among other things for passing ordinances, adopting the budget and appointing committees. The Council appoints a City Attorney as legal counsel and a City Manager who is the administrative head of the government. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with either two or three council members elected every two years.

A Mayor and Vice-mayor are selected by the council from its members.

The City of Anderson provides a full range of services, including police, the maintenance of streets and other infrastructure, recreational activities and cultural events. The City also provides water and sewer services to its citizens.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Anderson operates.

Local Economy

Historically, the Anderson local economy has been primarily influenced by wood and lumber related industries. Of the 13 largest manufacturers in 1990, ten were directly involved in wood products processing and accounted for 2,000 of the total 2,112 manufacturing related jobs in the greater Anderson area. Mill closures culminating in the 2001 closure of the Shasta Paper Company resulted in elimination of many of these jobs, however, numerous jobs have been created in retail and tourist related businesses. Also, a number of new jobs have been developed in non-timber related manufacturing. While the timber is still very important and the City continues to actively promote the unique characteristics of the community that make it attractive to timber product industries, the local economy is increasingly influenced by non-timber related businesses.

In 1999, the City annexed 186 acres of industrially zoned property in the Ox Yoke Road area with the intention of encouraging the diversification of manufacturing. Since then,

several new manufacturing businesses have been established in this area including Motion Industries, Harvest Printing, Lite Crete Docks, Newport Biosystems, Western Horticulture Tag and Label, Independent Business Forms, Apply-A-Line and Coast Line Tank.

In 2000, the Anderson Redevelopment Agency formed the Southwest Redevelopment Project Area. Subsequently, the Agency acquired and sold a 4.3-acre industrial parcel in the Barney Street/Marx Way industrial area to Outdoor Creations, a manufacturer of concrete picnic tables, grills, benches, and monument signs.

In 2004, the City Council and Shasta County Board of Supervisors adopted a joint action plan to encourage new manufacturing southeast of the City. Plans to improve the area's infrastructure have begun, with improvement plans for the I-5/Deschutes Interchange being developed in a cooperative process with California Department of Transportation and Federal Highway Administration officials.

In 2005-2006, the City of Anderson experienced slowing, but continued, growth in the local housing market that began accelerating in 2001-2002. Even as residential construction slows, nonresidential construction has remained very strong, led by the completion of a new Wal-Mart Supercenter in June 2006. In sum, construction-related activities continued to boost to the local economy in 2005-2006.

Accounting, Budgetary and Loss Control

Fund Accounting

The City's accounting system is organized and operated on a "fund basis." A fund is defined as a fiscal accounting entity with a self-balancing set of accounts. Individual funds are

used for the purpose of carrying on specific activities or attaining certain objectives. The accounting system has been developed to make it possible to present fairly and with full disclosure the financial position and results of financial operations of each fund. Additional information about the City's use of fund accounting is in note 1 to the financial statement.

Internal Control

The City's general policies and procedures are designed to reasonably safeguard its assets, check the reliability of its accounting data and promote operational efficiency. We believe that the city's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of all financial transactions.

Budgetary Control

In June of odd numbered years, the City Council considers and adopts a budget plan for the coming two fiscal years. In June of each fiscal year, appropriations are adopted for the upcoming fiscal year for each fund and for departmental units within each fund. Budgetary control is maintained at the fund level; the City Manager may transfer appropriations between accounts in each fund. However, any revision that alters the total expenditure level of a fund must be approved by the City Council. Additional information about the City's budget policies can be found in note 1 to the financial statements.

Cash Management

The City of Anderson follows the practice of pooling temporarily idle cash during the year. Monies not required for immediate expenditure are invested in accordance with State law and the City's formal investment policy. These monies were invested in demand deposits, U.S. Government securities, and the Local Agency Investment fund. Notes 1

and 2 to the financial statements contain additional information.

Fiduciary Operations

The City maintains a number of fiduciary funds, which contain assets held in trust for other agencies.

Fixed Assets

The general fixed assets of the City are those fixed assets used in the performance of general governmental functions and exclude the fixed assets of Enterprise fund. As of June 30, 2006 the City's capital assets, including both governmental and business-type, amounted to \$15,761,077. Note 3 to the financial statements contains additional information about fixed assets.

Debt Obligations

The City uses lease-purchase financing and certificates of participation, as well as traditional debt instruments, when deemed appropriate. The City has neither outstanding general obligation bonds nor authorized but unused general obligations bonds at this time. A complete description of all outstanding debts can be found in note 4 to the financial statements.

Risk Management

The City is a member of the Northern California Cities Self-Insurance Fund, a Joint Powers Authority providing its member cities a shared risk plan for worker's compensation and liability insurance. The City's Workers' Compensation Program comprises a banking or deductible layer for claims up to \$100,000 and a shared risk pool for claims from \$100,000 to \$500,000. Excess coverage is provided for claims over the shared risk layer up to the statutory limit. The Liability Program comprises a banking or deductible

layer for claims up to \$25,000 (except employment practices liability which is \$50,000) and a shared risk pool for claims from \$25,000 (or \$50,000) to \$500,000. Excess coverage is provided for claims over the shared risk layer up to \$40,000,000. A complete discussion of the City's worker's compensation and liability insurance programs is in note 5 to the financial statements.

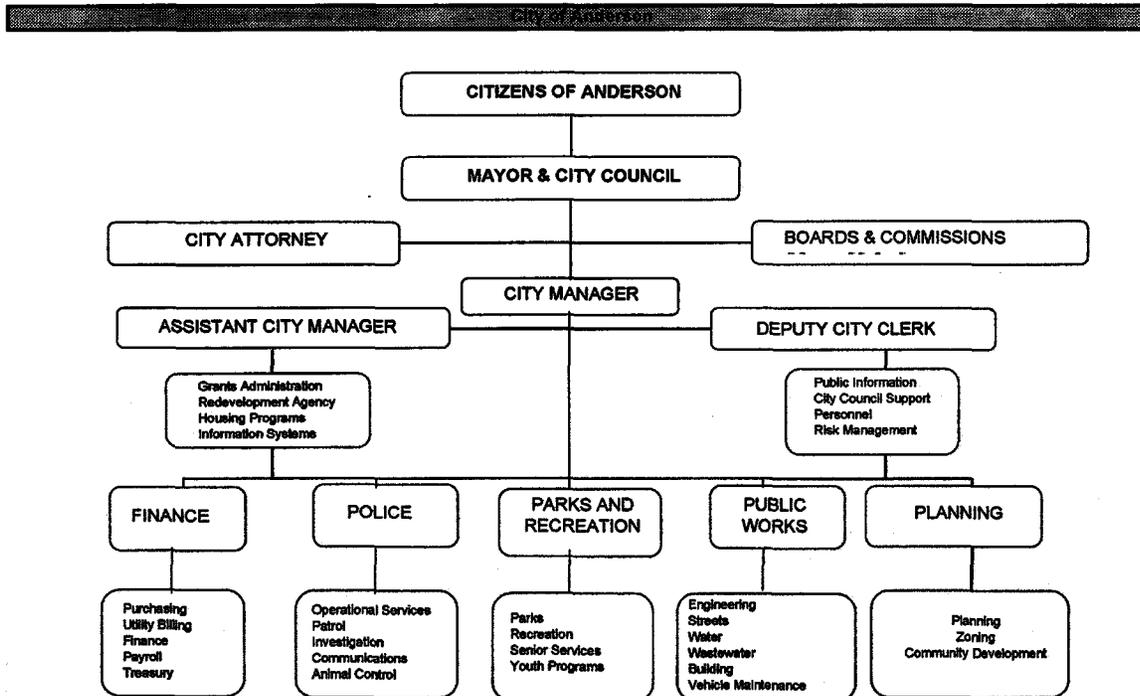
Pension Benefits

The City of Anderson contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. A complete discussion of the City's retirement plan is in note 7 to the financial statements.

Acknowledgements

The City's fiscal condition remains fairly strong. This is not achieved without the commitment and leadership of the City Council and City Manager, as well as the cooperation of all department heads and employees. I would especially like to thank the entire staff of the Finance Department for their dedication to processing the daily fiscal transactions of the City in an efficient manner. Without their hard work and dedication, this CAFR would not be possible.

Linda Watkins-Gallino
Finance Director



CITY OF ANDERSON
CITY COUNCIL AND ADMINISTRATIVE PERSONNEL
YEAR ENDED JUNE 30, 2006

CITY COUNCIL

Mayor Keith Webster
Vice Mayor Butch Schaefer
Council Member Les Baugh
Council Member Phil Burnett
Council Member Norma Cornick

ADMINISTRATIVE PERSONNEL

City Manager Scott Morgan
Assistant City Manager Dana Shigley
Deputy City Clerk Juanita Barnett
City Attorney Michael Fitzpatrick
Finance Director/Treasurer Linda Watkins-Gallino
Director of Public Works Richard Barchus
Planning Director John Stokes
Director of Parks & Recreation Ken Hartman
Police Chief Dale Webb
Building Official John Stover

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Anderson, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Anderson, California, as of and for the year ended June 30, 2006, which collectively comprise the City of Anderson's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Anderson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Anderson, California, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Page 7

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2007, on our consideration of the City of Anderson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 9 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Anderson's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Anderson, California. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Nystrom & Company LLP

January 12, 2007

Page 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

This section of the Comprehensive Annual Financial Report provides a narrative overview and analysis of the financial activities of the City of Anderson for the fiscal year ended June 30, 2006. This should be read in conjunction with the transmittal letter and the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Anderson exceeded its liabilities at June 30, 2006, by \$23.85 million (net assets). Of this amount, \$5.19 million (unrestricted net assets) may be used to meet the government's ongoing obligations to its citizens and creditors.
- Total net assets increased by \$2.23 million, with an increase of \$2.17 million in net assets of governmental activities, and an increase of \$0.06 million in business-type activities.
- Governmental funds reported combined June 30, 2006, fund balances of \$12.04 million, a decrease of \$0.40 million in comparison to the previous fiscal year. These fund balances are largely reserved for various purposes, with \$3.67 million (30.4%) being unreserved and available for spending (unreserved fund balance).
- As of June 30, 2006, the General Fund had a year-end unreserved fund balance of \$1.15 million, of which \$1.02 million was undesignated. The unreserved General Fund balance at June 30, 2006, represented 24.1% of 2005-2006 General Fund expenditures of \$4.78 million.
- The City issued \$0.07 million in new debt during 2005-2006, for the purchase of a new dump truck for the Public Works Department. Including this newly assumed debt, during the fiscal year ended June 30, 2006, the City's net long-term debt was reduced by \$0.26 million.

Page 9

OVERVIEW OF THE FINANCIAL HIGHLIGHTS

The basic financial statements are comprised of three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also includes other supplementary information as well as a *Single Audit* section that presents required reports on internal controls and compliance with laws and regulations related to federal grants.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This set of statements is designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* (Statement 1) presents information on all the City's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the City of Anderson is improving or declining.

The *statement of activities* (Statement 2) presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as for uncollected taxes and earned but not yet used vacation time.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees or are required by grantor agencies to be accounted for in this fashion (*business-type activities*). The governmental activities include general government, public safety, public works, planning, community development, and recreation and cultural. The business-type activities of the City are water and sewer.

The government-wide financial statements include not only the City of Anderson itself (known as the *primary government*), but also its component units, entities for which the government is considered to be financially responsible. Blended component units,

Page 10

although legally separate entities, are in substance, part of the government's operations and so data from these units are combined with data of the primary government.

The Anderson Redevelopment Agency is reported as a blended component unit in these statements. The Agency Board is composed of the members of the City Council, and certain City staff additionally serve as staff officers of the Agency. The Anderson Public Financing Authority is a Joint Powers Agency formed by the City of Anderson and Anderson Redevelopment Agency. Directors of the Authority are the members of the City Council, and staff of the City and Agency also serve as staff for the Authority. Complete financial statements of the Anderson Redevelopment Agency may be obtained for the City of Anderson Finance Department.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Anderson, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Anderson can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impacts of the government's near-term decisions. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Anderson maintains 29 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, the Gas Tax Fund, the Anderson Downpayment Assistance (ADAP) & HOME Fund, the Community Development Block Grant (CDBG) Fund, the Southwest Redevelopment Project Area Housing Set-aside Fund, the Riverside East Debt Service Fund, the

Page 11

Southwest Redevelopment Debt Service Fund, the Teen Center Building Fund, the Southwest Redevelopment Capital Projects Fund and the Southwest Redevelopment Project Area 2005 Bond Fund, all of which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Anderson adopts annual appropriations for its major governmental funds. As required supplementary statements, budgetary comparison statements have been provided for the General Fund and Major Special Revenue Funds to demonstrate compliance with adopted appropriations. The basic governmental fund financial statements can be found on pages 26-49 of this report.

Proprietary Funds. The City of Anderson maintains enterprise and internal service proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City of Anderson uses enterprise funds to account for its water and sewer enterprises. Both of the City's enterprise funds are considered major funds.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Anderson's various functions. The City of Anderson uses its Internal Service Fund to account for public works charges to other departments, maintenance of the City's vehicle fleet, maintenance of City buildings and equipment, and maintenance of the City's computer systems. Because these services primarily benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements. The City's Internal Service Fund is considered a non-major fund, but is shown in detail in on pages 50-56 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Anderson's own programs. The accounting used for fiduciary funds is much like that use for proprietary funds. The basic fiduciary fund financial statements can be found on page 57 of this report.

Notes to the Financial Statements. The notes provide additional important information that is essential to the reader for a full understanding of the data provided in the government-wide and fund financial statements.

Page 12

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. For the City of Anderson, assets exceeded liabilities by \$23.85 million at June 30, 2006. Net assets increased by \$2.23 million in Fiscal Year 2005-2006.

The City of Anderson's net assets increased in both governmental activities and business-type activities during the 2005-2006 fiscal year. Net assets in governmental activities increased by \$2.18 million, and net assets in business-type activities increased by \$0.06 million.

Changes in Net Assets

REVENUES	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Program Revenues:						
Charges for services	\$826,368	\$1,165,627	\$2,334,272	\$2,170,102	\$3,160,640	\$3,335,729
Operating grants and contributions	511,441	356,402	-	-	511,441	356,402
Capital grants and contributions	2,418,996	1,013,723	-	209,692	2,418,996	1,223,415
General Revenues:						
Sales taxes	1,740,024	1,513,025	-	-	1,740,024	1,513,025
Property taxes	1,403,144	1,280,592	-	-	1,403,144	1,280,592
Motel taxes	208,493	174,580	-	-	208,493	174,580
Special gas taxes	781,066	868,990	-	-	781,066	868,990
Franchise and other taxes	308,055	292,026	-	-	308,055	292,026
Motor Vehicle license fees	626,171	552,667	-	-	626,171	552,667
Impact fees	775,242	1,390,679	-	-	775,242	1,390,679
Gain on Sale of Asset	-	60,942	-	-	-	60,942
Investment earnings	362,979	299,599	97,336	70,019	460,315	369,618
Total revenues	9,961,979	8,968,852	2,431,608	2,449,813	12,393,587	11,418,665

EXPENSES	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
General Government	687,021	624,125	-	-	687,021	624,125
Public Safety	3,075,332	2,828,564	-	-	3,075,332	2,828,564
Public Works	924,734	950,773	-	-	924,734	950,773
Planning	278,011	211,575	-	-	278,011	211,575
Community Development	2,057,028	1,076,514	-	-	2,057,028	1,076,514
Recreation and cultural	642,083	655,531	-	-	642,083	655,531
Water	-	-	1,151,739	1,100,804	1,151,739	1,100,804
Sewer	-	-	1,346,727	1,266,929	1,346,727	1,266,929
Total expenses	7,664,209	6,347,082	2,498,466	2,367,733	10,162,675	8,714,815
Excess (deficiency) before transfers	2,297,770	2,621,770	(66,858)	82,080	2,230,912	2,703,850
Transfers	(123,265)	(120,044)	123,265	120,044	-	-
Increase in net assets	2,174,505	2,501,726	56,407	202,124	2,230,912	2,703,850
Net assets, beg. of year	13,769,662	11,280,972	7,847,829	7,645,705	21,617,491	18,926,677
Net assets, end of year	\$15,944,167	\$13,782,698	\$7,904,236	\$7,847,829	\$23,848,403	\$21,630,527

A large portion of the City of Anderson's net assets (39.7 percent) reflects the City's investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Anderson uses these assets to serve its citizens and businesses; consequently, these assets are *not* available for spending. Although the City of Anderson's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Another large portion (38.6 percent) of the City of Anderson's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets totaling \$5.19 million (21.8 percent) may be used to meet the government's ongoing obligations to its citizens and creditors.

Statement of Net Assets

	Governmental Activities		Business Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
ASSETS						
Current and other assets	\$16,842,303	\$17,422,132	\$2,550,160	2,601,983	\$19,392,463	\$20,024,115
Capital assets	7,904,606	5,186,270	7,856,471	8,052,270	15,761,077	13,238,540
Total assets	24,746,909	22,608,402	10,406,631	10,654,253	35,153,540	33,262,655
LIABILITIES						
Long-term liabilities	5,837,685	5,824,306	1,824,744	2,080,943	7,662,429	7,905,249
Other liabilities	2,965,057	3,001,398	677,651	725,481	3,642,708	3,726,879
Total liabilities	8,802,742	8,825,704	2,502,395	2,806,424	11,305,137	11,632,128
NET ASSETS						
Invested in capital assets, net of related debt	3,364,777	2,440,149	6,097,332	6,036,902	9,462,109	8,477,051
Restricted	9,194,737	8,852,753			9,194,737	8,852,753
Unrestricted	3,384,653	2,489,796	1,806,904	1,810,927	5,191,557	4,300,723
Total net assets	<u>\$15,944,167</u>	<u>13,782,698</u>	<u>\$7,904,236</u>	<u>7,847,829</u>	<u>\$23,848,403</u>	<u>21,630,527</u>

Governmental Activities. Primary Governmental activity expenses totaled \$7.66 million in Fiscal Year 2005-2006. Program revenues totaled \$3.76 million. General revenues and transfers totaled \$6.08 million. Tax revenues of \$4.44 million (73.0 percent) represented the largest share of general revenues and transfers, and development impact fee revenues of \$0.78 million (12.7 percent) represented the second-largest share of general revenues and transfers.

Public safety activity expenses of \$3.08 million represented the largest portion of governmental activity expenses (40.2 percent). Community development activity expenses of \$2.03 million accounted for another 26.8 percent. Public works activity expenses of \$0.92 million represented 12.1 percent. General government activity expenses of \$0.69 million represented 9.0 percent. Recreation and cultural activity expenses of \$0.64 million represented 8.4 percent, and planning activity expenses of \$0.28 million represented 3.6 percent.

Business-type Activities. Business-type activity expenses totaled \$2.50 million in Fiscal Year 2005-2006. Charges for services totaled \$2.33 million. Water enterprise expenses totaled \$1.15 million, with charges for water services totaling \$1.05 million. Sewer enterprise expenses totaled \$1.35 million, with charges for sewer services totaling \$1.29 million.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier in this discussion and analysis, the City of Anderson uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds have been classified as governmental or proprietary.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2006, the City of Anderson's governmental funds reported combined ending fund balances of \$12.04 million. Of this total, 30.4% (\$3.67 million) was unreserved, which is available for spending at the City's discretion.

General Fund. The General Fund is the chief operating fund of the City of Anderson. In 2005-2006, the City experienced a deficiency of General Fund revenues under expenditures in the amount of \$129,901. This reduced the year-end General Fund balance to \$1,152,833.

General Fund revenues. Sales and use tax revenues grew 5.9% from 2004-2005 to 2005-2006 due to the combination of a larger number of sales tax accounts and general economic growth, fueled largely by construction-related activity. Property tax revenues grew 9.7%, largely a result of increasing assessed valuation on properties that sold and as a result of new construction. Transient occupancy (motel) taxes were up 19.4%. Franchise taxes grew 8.0%.

Licenses and permits decreased 30.2%, largely a result of a reduction of building permit and plan check revenues on a fiscal year comparative basis. The comparable 2004-2005 fiscal year included the large Wal-Mart plan check and building permit revenues.

The category of fines, forfeitures and penalties grew 13.5%, led by a large increase in vehicle code fines.

Intergovernmental revenues were up 16.4%, largely as a result of property taxes received in lieu of a legislated reduction in motor vehicle in lieu fees.

Charges for services grew by 7.7%. Revenues from the use of money and property decreased by 6.4%, as the fund balance declined and interest rates remained near recent lows.

Other revenues were down substantially, 82.5%, due mostly to a one-time receipt of \$161,230 during the comparable 2004-2005 fiscal year that was from the State's repayment of prior years vehicle in lieu collections that had been withheld from local governments to help the State address its previous financial crisis.

Overall, general fund revenues increased 1.4%, from \$4,590,505 in fiscal year 2004-2005 to \$4,653,436 in fiscal year 2005-2006. Excluding the one-time prior year vehicle in lieu revenue of \$161,230 received in 2004-2005, generally recurring revenues increased by 5.1%.

General Fund Revenues			
	2005/06	% of Total	Change from 2004/05
Sales and use taxes	\$1,655,453	35.6%	\$91,820
Property taxes	808,490	17.4%	71,517
Motel taxes	208,493	4.5%	33,913
Franchise taxes	255,552	5.5%	18,922
Licenses and permits	315,124	6.8%	(136,318)
Fines, forfeitures and penalties	130,787	2.8%	15,546
Use of money and property	25,758	0.6%	(1,747)
Intergovernmental	846,860	18.2%	119,373
Charges for services	369,380	7.9%	26,359
Other	<u>37,539</u>	<u>0.8%</u>	<u>(176,454)</u>
Total revenues	\$4,653,436	100%	\$62,931

General Fund expenditures. General Fund expenditures totaled \$4,783,337 in 2005-2006. This was an increase of 5.8% compared to 2004-2005 General Fund expenditures.

General government expenditures decreased 1.8%. Public safety expenditures grew 8.4%, as the Police Department added staff. Community development expenditures increased 3.4%. Planning expenditures grew 9.7%. Recreation and cultural expenditures decreased 0.9% due to a short-term vacancy in the Parks and Recreation Department. Retirement of principal increased 4.0% and interest charges decreased 14.6% as debt service payments continued to be made on the City's animal shelter. Capital outlay expenditures increased 530.3% due to the construction of a secure personnel file room in 2005-2006, and as the comparable 2004-2005 year had very little capital outlay.

General Fund Expenditures			
	2005/06	% of Total	Change from 2004/05
General government	\$698,833	14.6%	(\$12,497)
Public safety	2,815,885	58.9%	219,318
Community development	502,069	10.5%	16,663
Planning	232,075	4.9%	20,500
Recreation and cultural	455,767	9.5%	(4,146)
Principal retirement	34,776	0.7%	1,326
Interest and fiscal charges	15,815	0.3%	(2,712)
Capital outlay	<u>28,117</u>	<u>0.6%</u>	<u>23,656</u>
Total expenditures	\$4,783,337	100.0%	\$262,108

General Fund analysis. General Fund expenditures exceeded General Fund revenues by \$129,901 in fiscal year 2005-2006. As a result, the year-end General Fund balance declined to \$1,152,833. This was the second consecutive year that the General Fund experienced a decline in its year-end fund balance.

Expressed as a percentage of annual expenditures, the General Fund balance stood at 24.1% on June 30, 2006. While the City's General Fund balance remains healthy, and indeed above the City Council's target 15% to 20% range, the decline in this important indicator of fiscal health is a trend that management will continue to monitor carefully over the next two or three years.

Major Special Revenue Funds. Major special revenue funds posted the following results for 2005-2006:

	<u>Excess (deficiency) of revenues and other sources over expenditures and other uses</u>	<u>Year end Fund Balance</u>
Gas Tax Fund	\$138,923	\$1,081,801
ADAP and HOME Fund	\$23,166	\$3,832,763
CDBG Fund	\$305,744	\$2,212,762
SW RDA Housing Set-aside	(\$30,065)	(\$108,403)

Proprietary funds. The City's two enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail. Highlights of the annual activity for these funds have already been provided in the discussion of the business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the general fund and the major special revenue funds for the year ended June 30, 2006, is presented as required supplementary information. This can be found on pages 40-49. The table on the following page summarizes the original and final General Fund budget compared to actual results for 2005-2006:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues	\$4,524,250	\$4,537,250	\$4,653,436
Expenses	<u>(\$4,695,621)</u>	<u>(\$4,837,986)</u>	<u>(\$4,783,337)</u>
Excess (Deficiency)	(\$170,871)	(\$300,236)	(\$129,901)

Page 19

The most significant changes from the original budget to the final budget were the changes associated with the settlement of multi-year labor agreements with the Anderson Police Officers Association and the Teamsters Local 137 and the City Council approval of wage and benefit increases for management and confidential employees. These changes were approved by the City Council in the fall of 2005, and increased the final General Fund expenditure budget for 2005-2006.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City of Anderson's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$15.76 million (net of accumulated depreciation). This investment in capital assets includes land, park improvements, buildings and improvements, vehicles and equipment, streets, bikeways, water, sewer and storm drain systems.

Major capital asset development during fiscal year 2005-2006 included the start of construction of a new Anderson Teen Center and Shasta County Public Health building at Howard and East Center Street. Construction of this facility is expected to be completed in the 2006-2007 fiscal year.

Additional information on the City's capital assets may be found in note 3 to the basic financial statements.

Long-term debt. At June 30, 2006, the City and its Re-development Agency had \$5.61 million in governmental activity debt outstanding. In addition, the City had \$1.76 million in business-type activity debt outstanding. Net long-term debt was reduced by \$0.26 million during fiscal year 2005-2006.

Additional information about the nature and type of long-term debt can be found in note 4 to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Annually each May, the State Department of Finance releases their January 1 population estimates for all California cities and counties. During calendar year 2005, the City of Anderson experienced moderate population growth. On a percent change basis, Anderson's rate of population growth continues to exceed the rate of population growth of nearby jurisdictions. The State Department of Finance estimated that Anderson's population was 10,677 as of January 1, 2006, up from a revised estimate of 10,529 as of January 1, 2005. While it is expected that the current slowdown in the local and statewide housing market will

Page 20

continue to slow near-term population growth, in the longer term, expected robust population growth will tend to drive both City revenues and expenditures upwards. There are currently five active subdivisions within the City. With a large number of ready-to-go lots available in inventory, these subdivisions are poised to be able to quickly respond to any increased local demand for new housing.

On the nonresidential side, the most significant development project within the City that was completed in 2005-2006 was a new Wal-Mart Supercenter. The new combination grocery and retail store opened in June 2006. Construction is now underway for the balance of the retail development within the 206,000 square foot Anderson Marketplace shopping center. Fiscal Year 2006-2007 sales and property tax revenues generated within the Anderson Marketplace are anticipated to be substantial.

Construction is currently underway on a large hotel development along the Sacramento River near the interchange of Riverside Avenue and Interstate 5. When completed in 2007-2008, this development will also be a large tax producer of general fund revenues in the form of increased property and transient occupancy (hotel) taxes.

While general fund revenue growth is expected to be strong in the near term, in anticipation of this trend, the City has also taken on larger financial obligations to its employees in the form of labor agreements that increase salaries and benefits for represented employees through June 30, 2009. The City's residential, commercial and industrial growth will also create pressures for additional staffing in departments that have not seen staff levels grow for many years.

To adequately serve its water and sewer customers over the next two years, management anticipates that City water and sewer consumption rates will need to be adjusted modestly. As such, management has proposed that water and sewer rate adjustments on consumption be increased between 1.7% and 3.1% each year, depending upon meter size and location, over the next two fiscal years (2007-2008 and 2008-2009). A public hearing on this proposal has been set for May 1, 2007.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Anderson's financial condition for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director/Treasurer, City of Anderson, 1887 Howard Street, Anderson, California 96007.

CITY OF ANDERSON
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,074,956	\$ 1,024,642	\$ 7,099,598
Receivables:			
Taxes	2,045,085	-	2,045,085
Accounts	241,111	138,281	379,392
Interest	769,685	-	769,685
Due from other governments	1,210,419	1,630	1,212,049
Inventories	42,819	14,596	57,415
Prepaid expenses and deferred charges	268,616	-	268,616
Land held for resale	16,405	-	16,405
Internal balances	(1,318,302)	1,318,302	-
Restricted assets:			
Cash and cash equivalents	450,381	20,840	471,221
Loans receivable	6,915,181	-	6,915,181
Unamortized issuance costs	125,947	31,869	157,816
Non-depreciable capital assets	3,566,070	32,485	3,598,555
Depreciable capital assets, net	4,338,536	7,823,986	12,162,522
Total assets	\$ 24,746,909	\$ 10,406,631	\$ 35,153,540

(Continued on following page)

Page 22

CITY OF ANDERSON
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
LIABILITIES			
Accounts payable	\$ 499,777	\$ 47,244	\$ 547,021
Accrued payroll and benefits	153,646	23,516	177,162
Accrued interest	89,115	11,985	101,100
Customer/employee deposits	123,513	42,125	165,638
Other liabilities	30,491	-	30,491
Deferred revenue	2,068,515	552,761	2,621,296
Long-term liabilities:			
Due within one year	108,147	281,770	389,917
Due in more than one year	5,729,536	1,542,974	7,272,512
Total liabilities	8,802,742	2,502,395	11,305,137
NET ASSETS			
Investment in capital assets, net of related debt	3,364,777	6,097,332	9,462,109
Restricted for:			
Redevelopment	330,517	-	330,517
Capital improvements	429,125	-	429,125
Debt service	587,666	-	587,666
Transportation	1,072,322	-	1,072,322
Grants	6,775,107	-	6,775,107
Unrestricted	3,384,653	1,806,904	5,191,557
Total net assets	15,944,167	7,904,236	23,848,403
Total liabilities and net assets	\$ 24,746,909	\$ 10,406,631	\$ 35,153,540

The accompanying notes are an integral part of these financial statements.

Page 23

CITY OF ANDERSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenue			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General government	\$ 687,021	\$ 124,599	\$ 7,786	-	\$ (554,636)
Public safety	3,075,332	177,436	228,703	139,527	(2,529,666)
Public works	924,734	71,768	217,814	166,277	(468,875)
Planning	278,011	23,000	-	-	(255,011)
Community development	2,057,028	252,190	36,843	2,072,076	304,081
Recreation and cultural	642,083	177,375	20,295	41,116	(403,297)
Total governmental activities	7,664,209	826,368	511,441	2,418,996	(3,907,404)
Business-type activities:					
Water	1,151,739	1,047,268	-	-	(104,471)
Sewer	1,346,727	1,287,004	-	-	(59,723)
Total business-type activities	2,498,466	2,334,272	-	-	(164,194)
Total primary government	\$ 10,162,675	\$ 3,160,640	\$ 511,441	\$ 2,418,996	\$ (4,071,598)

(Continued on following page)

Page 24

CITY OF ANDERSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Change in net assets:			
Net (expense)/revenue	\$ (3,907,404)	\$ (164,194)	\$ (4,071,598)
General revenues and transfers:			
General revenues:			
Taxes:			
Sales taxes	1,740,024	-	1,740,024
Property taxes	1,403,144	-	1,403,144
Motel taxes	208,493	-	208,493
Special gas taxes	781,066	-	781,066
Franchise taxes	255,552	-	255,552
Other taxes	52,503	-	52,503
Motor vehicle license fees	626,171	-	626,171
Impact fees	775,242	-	775,242
Investment earnings	362,979	97,336	460,315
Transfers	(123,265)	123,265	-
Total general revenues and transfers	6,081,909	220,601	6,302,510
Change in net assets	2,174,505	56,407	2,230,912
Net assets, beginning of year, as restated	13,769,682	7,847,829	21,617,491
Net assets, end of year	\$ 15,944,187	\$ 7,904,236	\$ 23,848,403

The accompanying notes are an integral part of these financial statements.

Page 25

CITY OF ANDERSON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Gas Tax Fund	ADAP & Home Fund	CDBG Fund
ASSETS				
Cash and cash equivalents	\$ 835,444	\$ 860,815	\$ 179,615	\$ 174,122
Receivables:				
Taxes	51,082	-	-	-
Accounts	165,234	-	2,179	300
Interest	74,238	-	313,281	313,551
Loans	-	-	3,650,969	1,772,982
Due from other governments	135,608	205,424	-	291,492
Due from other funds	-	174,935	-	108,689
Inventories	1,414	-	-	-
Prepaid expenses and deferred charges	283,966	-	-	-
Advances to other funds	-	100,000	-	5,104
Land held for resale	-	-	-	-
Restricted cash	-	-	-	-
Total assets	\$ 1,526,986	\$ 1,341,174	\$ 4,146,044	\$ 2,668,240

(Continued on following page)

Page 26

CITY OF ANDERSON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Gas Tax Fund	ADAP & Home Fund	CDBG Fund
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 90,052	\$ 44,427	-	\$ 17,397
Accrued payroll and benefits	126,318	-	-	1,781
Accrued interest	2,535	-	-	-
Customer/employee deposits	123,513	-	-	-
Other liabilities	29,577	914	-	-
Deferred revenue	2,158	39,097	313,281	351,051
Due to other funds	-	174,935	-	83,249
Advances from other funds	-	-	-	-
Total liabilities	374,153	259,373	313,281	453,478
FUND BALANCES (DEFICIT)				
Reserved for loans receivable	-	-	3,650,969	1,772,982
Reserved for advances	-	100,000	-	5,104
Reserved for debt service	-	-	-	-
Reserved for line extension	-	-	-	-
Reserved for parkland acres	-	-	-	-
Unreserved:				
Designated for self insurance	128,466	-	-	-
Undesignated, reported in:				
General fund	1,024,367	-	-	-
Special revenue funds	-	981,801	181,794	434,676
Debt service funds	-	-	-	-
Capital project funds	-	-	-	-
Total fund balances (deficit)	1,152,833	1,081,801	3,832,763	2,212,762
Total liabilities and fund balances	\$ 1,526,986	\$ 1,341,174	\$ 4,146,044	\$ 2,668,240

The accompanying notes are an integral part of these financial statements.

Page 27

CITY OF ANDERSON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Southwest Redevelopment Housing Fund	Riverside East Debt Service Fund	Southwest Redevelopment Debt Service Fund	Teen Center Building Fund
ASSETS				
Cash and cash equivalents	-	\$ 232,819	\$ 163,266	-
Receivables:				
Taxes	-	1,994,003	-	-
Accounts	-	-	-	-
Interest	67,639	-	-	-
Loans	1,121,348	-	-	-
Due from other governments	5,212	-	20,843	204,598
Due from other funds	-	-	-	-
Inventories	-	-	-	-
Prepaid expenses and deferred charges	-	-	-	-
Advances to other funds	-	-	-	-
Land held for resale	-	-	-	-
Restricted cash	-	125,654	-	71,147
Total assets	1,194,199	2,352,476	184,109	275,745

(Continued on following page)

CITY OF ANDERSON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Southwest Redevelopment Housing Fund	Riverside East Debt Service Fund	Southwest Redevelopment Debt Service Fund	Teen Center Building Fund
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 28	-	\$ 82,714	\$ 79,174
Accrued payroll and benefits	509	-	-	-
Accrued interest	20,056	28,390	38,050	-
Customer/employee deposits	-	-	-	-
Other liabilities	-	-	-	-
Deferred revenue	67,839	1,990,000	-	-
Due to other funds	299,886	-	34,192	508,682
Advances from other funds	914,684	-	80,262	-
Total liabilities	1,302,802	2,018,390	235,218	587,856
FUND BALANCES (DEFICIT)				
Reserved for loans receivable	1,121,348	-	-	-
Reserved for advances	-	-	-	-
Reserved for debt service	-	334,086	-	-
Reserved for line extension	-	-	-	-
Reserved for parkland acres	-	-	-	-
Unreserved:				
Designated for self insurance	-	-	-	-
Undesignated, reported in:				
General fund	-	-	-	-
Special revenue funds	(1,229,751)	-	-	-
Debt service funds	-	-	(51,109)	-
Capital project funds	-	-	-	(312,111)
Total fund balances (deficit)	(108,403)	334,086	(51,109)	(312,111)
Total liabilities and fund balances	\$ 1,194,199	\$ 2,352,476	\$ 184,109	\$ 275,745

The accompanying notes are an integral part of these financial statements.

CITY OF ANDERSON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Southwest Redevelopment Capital Projects Fund	2005 Southwest Redevelopment Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	-	\$ 1,074,146	\$ 1,706,989	\$ 5,227,216
Receivables:				
Taxes	-	-	-	2,045,085
Accounts	-	-	-	167,713
Interest	-	-	976	769,685
Loans	-	-	369,882	6,915,181
Due from other governments	1,215	-	235,459	1,099,851
Due from other funds	-	422,714	36,653	742,991
Inventories	-	-	-	1,414
Prepaid expenses and deferred charges	-	-	-	263,966
Advances to other funds	-	-	340,284	445,388
Land held for resale	16,405	-	-	16,405
Restricted cash	-	253,580	-	450,381
Total assets	\$ 17,620	\$ 1,750,440	\$ 2,690,243	\$ 18,145,276

(Continued on following page)

Page 30

CITY OF ANDERSON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Southwest Redevelopment Capital Projects Fund	2005 Southwest Redevelopment Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 11,973	\$ 54,796	\$ 85,756	\$ 486,317
Accrued payroll and benefits	2,283	-	608	131,499
Accrued interest	-	-	-	89,031
Customer/employee deposits	-	-	-	123,513
Other liabilities	-	-	-	30,491
Deferred revenue	-	-	-	2,763,226
Due to other funds	-	-	180,274	1,281,018
Advances from other funds	-	-	220,766	1,215,712
Total liabilities	14,256	54,796	487,404	6,100,807
FUND BALANCES (DEFICIT)				
Reserved for loans receivable	-	-	369,882	6,915,181
Reserved for advances	-	-	340,284	445,388
Reserved for debt service	-	253,580	-	587,666
Reserved for line extension	-	-	174,689	174,689
Reserved for parkland acres	-	-	254,436	254,436
Unreserved:				
Designated for self insurance	-	-	-	128,466
Undesignated, reported in:				
General fund	-	-	-	1,024,367
Special revenue funds	-	-	1,107,589	1,476,089
Debt service funds	-	-	-	(51,109)
Capital project funds	3,364	1,442,064	(44,021)	1,089,296
Total fund balances (deficit)	3,364	1,695,644	2,202,839	12,044,469
Total liabilities and fund balances	\$ 17,620	\$ 1,750,440	\$ 2,690,243	\$ 18,145,276

The accompanying notes are an integral part of these financial statements.

Page 31

CITY OF ANDERSON
RECONCILIATION OF FUND BALANCES TO NET ASSETS
JUNE 30, 2006

Total fund balances included in the Balance Sheet - Governmental Funds		\$ 12,044,469
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		6,286,297
Debt issuance costs expensed in the governmental funds are capitalized and amortized in the Statement of Net Assets.		125,947
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred or are not reported in the governmental funds.		866,634
An internal service fund is used by management to charge the costs of data processing, customer service, maintenance and fleet management services to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Assets.		2,348,372
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Long-term obligations	\$ (5,548,556)	
Compensated absences	(178,996)	(5,727,552)
Net assets reported within the Statement of Net Assets - Governmental Activities		\$ 15,944,167

The accompanying notes are an integral part of these financial statements.

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Gas Tax Fund	ADAP & Home Fund	CDBG Fund
Revenues:				
Sales taxes	\$ 1,655,453	-	-	-
Property taxes	808,490	-	-	-
Motel taxes	208,493	-	-	-
Franchise taxes	255,552	-	-	-
Licenses and permits	315,124	-	-	-
Fines, forfeitures and penalties	130,787	-	-	-
Use of money and property	25,758	36,214	51,833	52,111
Intergovernmental revenue	848,860	1,145,356	-	687,486
Charges for current services	369,380	-	-	-
Other revenues	37,539	6,853	-	95
Total revenues	4,653,436	1,188,423	51,833	719,692
Expenditures:				
Current:				
General government	698,833	-	-	-
Public safety	2,815,885	-	-	-
Public works	-	820,598	-	-
Planning	232,075	-	-	-
Community development	502,069	-	28,667	70,120
Recreation and cultural	455,767	-	-	-
Capital outlay	28,117	217,780	-	335,130
Debt Service:				
Principal	34,776	-	-	-
Interest and fiscal charges	15,815	4,521	-	8,698
Total expenditures	4,783,337	1,042,899	28,667	413,948

(Continued on following page)

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Gas Tax Fund	ADAP & Home Fund	CDBG Fund
Excess (deficiency) of revenues over (under) expenditures	(129,901)	145,524	23,166	305,744
Other financing sources (uses):				
Operating transfers in	-	-	-	30,000
Operating transfers out	-	(6,601)	-	(30,000)
Total other financing sources (uses)	-	(6,601)	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(129,901)	138,923	23,166	305,744
Fund balances (deficit), beginning of year, as restated	1,282,734	942,878	3,809,597	1,907,018
Fund balances (deficit), end of year	\$ 1,152,833	\$ 1,081,801	\$ 3,832,763	\$ 2,212,762

The accompanying notes are an integral part of these financial statements.

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Southwest Redevelopment Housing Fund	Riverside East Debt Service Fund	Southwest Redevelopment Debt Service Fund	Teen Center Building Fund
Revenues:				
Sales taxes	-	-	-	-
Property taxes	-	110,473	472,311	-
Motel taxes	-	-	-	-
Franchise taxes	-	-	-	-
Licenses and permits	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Use of money and property	7,894	12,095	5,560	-
Intergovernmental revenue	-	-	-	806,706
Charges for current services	-	-	-	-
Other revenues	2,001	-	-	-
Total revenues	9,895	122,568	477,871	806,706
Expenditures:				
Current				
General government	-	3,490	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Planning	-	-	-	-
Community development	36,237	-	117,815	692,496
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	423,987
Debt Service:				
Principal	12,933	23,000	-	-
Interest and fiscal charges	85,252	87,238	126,361	2,334
Total expenditures	134,422	113,728	244,176	1,118,817

(Continued on following page)

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Southwest Redevelopment Housing Fund	Riverside East Debt Service Fund	Southwest Redevelopment Debt Service Fund	Teen Center Building Fund
Excess (deficiency) of revenues over (under) expenditures	(124,527)	8,840	233,695	(312,111)
Other financing sources (uses):				
Operating transfers in	94,462	409	106,978	-
Operating transfers out	-	-	(226,195)	-
Total other financing sources (uses)	94,462	409	(119,217)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(30,065)	9,249	114,478	(312,111)
Fund balances (deficit), beginning of year, as restated	(78,338)	324,837	(165,587)	-
Fund balances (deficit), end of year	\$ (108,403)	\$ 334,086	\$ (51,109)	\$ (312,111)

The accompanying notes are an integral part of these financial statements.

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Southwest Redevelopment Capital Projects Fund	2005 Southwest Redevelopment Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Sales taxes	-	-	-	\$ 1,655,453
Property taxes	-	-	-	1,391,274
Motel taxes	-	-	-	208,493
Franchise taxes	-	-	-	255,552
Licenses and permits	-	-	775,241	1,090,365
Fines, forfeitures and penalties	-	-	-	130,787
Use of money and property	-	81,149	93,553	365,167
Intergovernmental revenue	18,694	-	949,171	4,434,273
Charges for current services	-	-	44,916	414,296
Other revenues	-	-	113,649	160,137
Total revenues	18,694	81,149	1,976,530	10,106,797
Expenditures:				
Current:				
General government	-	-	24,280	726,603
Public safety	-	-	181,843	2,997,728
Public works	-	-	143,251	963,849
Planning	-	-	-	232,075
Community development	123,895	18,803	29,510	1,619,612
Recreation and cultural	-	-	154,165	609,932
Capital outlay	28,500	704,862	1,091,549	2,829,925
Debt Service:				
Principal	-	-	-	70,709
Interest and fiscal charges	2,911	-	2,455	335,585
Total expenditures	155,306	723,665	1,627,053	10,388,018

(Continued on following page)

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Southwest Redevelopment Capital Projects Fund	2005 Southwest Redevelopment Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Excess (deficiency) of revenues over (under) expenditures	(136,612)	(642,516)	349,477	(279,221)
Other financing sources (uses):				
Operating transfers in	131,733	-	12,501	376,083
Operating transfers out	-	(106,978)	(129,574)	(499,348)
Total other financing sources (uses)	131,733	(106,978)	(117,073)	(123,265)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(4,879)	(749,494)	232,404	(402,486)
Fund balances (deficit), beginning of year, as restated	8,243	2,445,138	1,970,435	12,446,955
Fund balances (deficit), end of year	\$ 3,364	\$ 1,695,644	\$ 2,202,839	\$ 12,044,469

The accompanying notes are an integral part of these financial statements.

Page 38

CITY OF ANDERSON
RECONCILIATION OF CHANGE IN FUND BALANCES
TO CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances included in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds		\$ (402,486)
Governmental funds report capital outlay and capitalized interest as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay and capitalized interest	\$ 2,238,857	
Depreciation expense	(182,787)	2,056,070
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		61,271
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		64,705
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(52,397)
An internal service fund is used by management to charge the costs of data processing, customer service, maintenance and fleet management services to individual funds. The net revenue of certain activities of the internal service fund is reported within governmental activities.		447,342
Net change in net assets reported within the Statement of Activities - Governmental Activities		\$ 2,174,505

The accompanying notes are an integral part of these financial statements.

Page 39

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Sales taxes	\$ 1,735,400	\$ 1,735,400	\$ 1,655,453	\$ (79,947)
Property taxes	724,500	724,500	808,490	83,990
Motel taxes	200,000	200,000	208,493	8,493
Franchise taxes	249,500	249,500	255,552	6,052
Licenses and permits	335,195	335,195	315,124	(20,071)
Fines, forfeitures and penalties	126,800	126,800	130,787	3,987
Use of money and property	24,500	24,500	25,758	1,258
Intergovernmental revenue	732,100	745,100	846,860	101,760
Charges for current services	364,825	364,825	369,380	4,555
Other revenue	31,430	31,430	37,539	6,109
Total revenues	4,524,250	4,537,250	4,653,436	116,186
Expenditures:				
Current:				
General government	752,164	683,034	698,833	(15,799)
Public safety	2,740,964	2,871,871	2,815,885	55,986
Public works	-	-	-	-
Planning	219,436	248,794	232,075	16,719
Community development	454,003	460,158	502,069	(41,911)
Recreation and cultural	478,284	497,679	455,767	41,912
Capital outlay	-	25,680	28,117	(2,437)
Debt service:				
Principal	47,376	47,376	34,776	12,600
Interest and fiscal charges	3,394	3,394	15,815	(12,421)
Total expenditures	4,695,621	4,837,986	4,783,337	54,649

(Continued on following page)

Page 40

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	(171,371)	(300,738)	(129,901)	170,835
Other financing sources (uses):				
Debt proceeds	-	-	-	-
Sale of capital assets	500	500	-	(500)
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	500	500	-	(500)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(170,871)	(300,238)	(129,901)	170,335
Fund balances (deficit), beginning of year	1,282,734	1,282,734	1,282,734	-
Fund balances (deficit), end of year	\$ 1,111,863	\$ 982,496	\$ 1,152,833	\$ 170,335

The accompanying notes are an integral part of these financial statements.

Page 41

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Gas Tax Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Sales taxes	-	-	-	-
Property taxes	-	-	-	-
Motel taxes	-	-	-	-
Franchise taxes	-	-	-	-
Licenses and permits	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Use of money and property	10,100	10,100	36,214	26,114
Intergovernmental revenue	1,192,528	1,800,471	1,145,356	(655,115)
Charges for current services	-	-	-	-
Other revenue	5,500	5,500	6,853	1,353
Total revenues	1,208,128	1,816,071	1,188,423	(627,648)
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	847,179	847,179	820,598	26,581
Planning	-	-	-	-
Community development	-	-	-	-
Recreation and cultural	-	-	-	-
Capital outlay	116,550	784,550	217,780	566,770
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	4,521	(4,521)
Total expenditures	963,729	1,631,729	1,042,899	588,830

(Continued on following page)

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Gas Tax Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	244,399	184,342	145,524	(38,818)
Other financing sources (uses):				
Debt proceeds	-	-	-	-
Sale of capital assets	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(25,000)	(25,000)	(6,601)	18,399
Total other financing sources (uses)	(25,000)	(25,000)	(6,601)	18,399
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	219,399	159,342	138,923	(20,419)
Fund balances (deficit), beginning of year	942,878	942,878	942,878	-
Fund balances (deficit), end of year	\$ 1,162,277	\$ 1,102,220	\$ 1,081,801	\$ (20,419)

The accompanying notes are an integral part of these financial statements.

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	ADAP & Home Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Sales taxes	-	-	-	-
Property taxes	-	-	-	-
Motel taxes	-	-	-	-
Franchise taxes	-	-	-	-
Licenses and permits	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Use of money and property	25,000	40,000	51,833	11,833
Intergovernmental revenue	-	-	-	-
Charges for current services	-	-	-	-
Other revenue	-	-	-	-
Total revenues	25,000	40,000	51,833	11,833
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Planning	-	-	-	-
Community development	16,000	34,000	28,667	5,333
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	16,000	34,000	28,667	5,333

(Continued on following page)

Page 44

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	ADAP & Home Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	9,000	6,000	23,166	17,166
Other financing sources (uses):				
Debt proceeds	-	-	-	-
Sale of capital assets	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	9,000	6,000	23,166	17,166
Fund balances (deficit), beginning of year, as restated	3,809,597	3,809,597	3,809,597	-
Fund balances (deficit), end of year	\$ 3,818,597	\$ 3,815,597	\$ 3,832,763	\$ 17,166

The accompanying notes are an integral part of these financial statements.

Page 45

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	CDBG Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Sales taxes	-	-	-	-
Property taxes	-	-	-	-
Motel taxes	-	-	-	-
Franchise taxes	-	-	-	-
Licenses and permits	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Use of money and property	33,000	33,000	52,111	19,111
Intergovernmental revenue	1,035,000	2,535,000	667,486	(1,867,514)
Charges for current services	-	-	-	-
Other revenue	-	-	95	95
Total revenues	1,068,000	2,568,000	719,692	(1,848,308)
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Planning	-	-	-	-
Community development	86,810	973,970	70,120	903,850
Recreation and cultural	-	-	-	-
Capital outlay	-	1,224,375	335,130	889,245
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	8,698	(8,698)
Total expenditures	86,810	2,198,345	413,948	1,784,397

(Continued on following page)

Page 46

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	CDBG Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	981,190	369,655	305,744	(63,911)
Other financing sources (uses):				
Debt proceeds	-	-	-	-
Sale of capital assets	-	-	-	-
Operating transfers in	-	30,000	30,000	-
Operating transfers out	-	(30,000)	(30,000)	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	981,190	369,655	305,744	(63,911)
Fund balances (deficit), beginning of year, as restated	1,907,018	1,907,018	1,907,018	-
Fund balances (deficit), end of year	\$ 2,888,208	\$ 2,276,673	\$ 2,212,762	\$ (63,911)

The accompanying notes are an integral part of these financial statements.

Page 47

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Southwest Redevelopment Housing Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Sales taxes	-	-	-	-
Property taxes	-	-	-	-
Motel taxes	-	-	-	-
Franchise taxes	-	-	-	-
Licenses and permits	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-
Use of money and property	40,883	40,883	7,894	(32,989)
Intergovernmental revenue	-	-	-	-
Charges for current services	-	-	-	-
Other revenue	2,000	2,000	2,001	1
Total revenues	42,883	42,883	9,895	(32,988)
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Planning	-	-	-	-
Community development	35,782	36,179	36,237	(58)
Recreation and cultural	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	12,933	(12,933)
Interest and fiscal charges	32,556	32,556	85,252	(52,696)
Total expenditures	68,318	68,735	134,422	(65,687)

(Continued on following page)

Page 48

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Southwest Redevelopment Housing Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	(25,435)	(25,852)	(124,527)	(98,675)
Other financing sources (uses):				
Debt proceeds	-	-	-	-
Sale of capital assets	-	-	-	-
Operating transfers in	71,960	90,132	94,462	4,330
Operating transfers out	(27,064)	(27,064)	-	27,064
Total other financing sources (uses)	44,896	63,068	94,462	31,394
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	19,461	37,216	(30,065)	(67,281)
Fund balances (deficit), beginning of year	(78,338)	(78,338)	(78,338)	-
Fund balances (deficit), end of year	\$ (58,877)	\$ (41,122)	\$ (108,403)	\$ (67,281)

The accompanying notes are an integral part of these financial statements.

Page 49

CITY OF ANDERSON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business Type Activities - Enterprise Funds			Governmental
	Water Fund	Sewer Fund	Total	Activities - Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 34,546	\$ 990,096	\$ 1,024,642	\$ 847,740
Receivables:				
Accounts	137,365	916	138,281	1,608
Due from other governments	1,630	-	1,630	10,435
Inventories	10,139	4,457	14,596	41,405
Due from other funds	2,105	553,035	555,140	-
Prepaid expenses and deferred charges	-	-	-	4,650
Total current assets	185,785	1,548,504	1,734,289	905,838
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	18,757	2,083	20,840	-
Advances to other funds	742,059	33,369	775,428	21,836
Unamortized issuance costs	18,007	15,862	31,869	-
Non-depreciable capital assets	32,485	-	32,485	545,601
Depreciable capital assets, net	3,061,508	4,762,478	7,823,986	1,072,708
Total noncurrent assets	3,870,816	4,813,792	8,684,608	1,640,145
Total assets	\$ 4,056,601	\$ 6,362,296	\$ 10,418,897	\$ 2,545,983

(Continued on following page)

Page 50

CITY OF ANDERSON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business Type Activities - Enterprise Funds			Governmental
	Water Fund	Sewer Fund	Total	Activities - Internal Service Fund
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 18,033	\$ 29,211	\$ 47,244	\$ 33,460
Accrued payroll and benefits	6,557	16,959	23,516	22,147
Accrued interest	6,332	5,653	11,985	84
Customer/employee deposits	42,125	-	42,125	-
Compensated absences payable, current	11,154	21,641	32,795	22,153
Deferred revenue	8,972	545,809	552,781	-
Bonds and loans payable, current	152,507	96,468	248,975	13,506
Due to other funds	12,266	-	12,266	4,847
Total current liabilities	255,948	715,741	971,687	98,197
Noncurrent liabilities:				
Advances from other funds	-	-	-	28,940
Compensated absences, net	10,486	22,344	32,810	22,561
Bonds and loans payable, net	884,371	615,793	1,510,164	51,913
Total noncurrent liabilities	904,837	638,137	1,542,974	101,414
Total liabilities	1,160,783	1,353,878	2,514,661	197,611
NET ASSETS				
Invested in capital assets, net of related debt	2,047,115	4,050,217	6,097,332	1,552,880
Unrestricted	848,703	958,201	1,806,904	795,482
Total net assets	2,895,818	5,008,418	7,904,236	2,348,372
Total liabilities and net assets	\$ 4,056,601	\$ 6,362,296	\$ 10,418,897	\$ 2,545,983

The accompanying notes are an integral part of these financial statements.

Page 51

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Sewer Fund	Total	Governmental Activities - Internal Service Fund
Operating revenues:				
Charges for current services:				
Water and waste water charges	\$ 1,018,183	\$ 1,286,502	\$ 2,304,685	-
Internal service fund charges	-	-	-	1,491,929
Permits and fees	11,722	-	11,722	-
Rental revenue	7,925	-	7,925	-
Other revenues	9,438	502	9,940	6,065
Total operating revenues	1,047,268	1,287,004	2,334,272	1,497,994
Operating expenses:				
Cost of sales and services	563,783	923,035	1,486,818	1,371,814
Administrative services	385,741	224,581	610,322	-
Depreciation expense	160,234	159,935	320,169	186,050
Total operating expenses	1,109,758	1,307,551	2,417,309	1,557,864
Operating income (loss)	(62,490)	(20,547)	(83,037)	(59,870)
Nonoperating revenues (expenses):				
Intergovernmental revenues	-	-	-	10,282
Investment income	43,585	53,751	97,336	-
Interest expense	(41,981)	(39,176)	(81,157)	(2,250)
Gain on sale of assets	-	-	-	3,690
Total nonoperating revenues (expenses)	1,604	14,575	16,179	11,722

(Continued on following page)

Page 52

CITY OF ANDERSON
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Sewer Fund	Total	Governmental Activities - Internal Service Fund
Income (loss) before contributions and transfers	(60,888)	(5,972)	(66,858)	(48,148)
Capital contributions	-	-	-	495,490
Operating transfers in	34,545	89,129	123,674	-
Operating transfers out	-	(409)	(409)	-
Change in net assets	(26,341)	82,748	56,407	447,342
Total net assets, beginning of year	2,922,159	4,925,670	7,847,829	1,901,030
Total net assets, end of year	\$ 2,895,818	\$ 5,008,418	\$ 7,904,236	\$ 2,348,372

The accompanying notes are an integral part of these financial statements.

Page 53

CITY OF ANDERSON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Sewer Fund	Total	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 1,015,717	\$ 1,287,842	\$ 2,303,559	\$ -
Cash received from interfund services provided	-	-	-	1,502,135
Cash paid to employees (including employee benefits)	(209,868)	(528,345)	(738,213)	(715,016)
Cash paid to suppliers	(403,956)	(578,451)	(982,417)	(460,244)
Cash paid for interfund services used	(349,747)	(65,736)	(415,483)	(190,021)
Net cash provided by operating activities	52,136	115,310	167,446	136,854
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Cash received from (paid to) other funds	59,723	(490,095)	(430,372)	(4,617)
Operating transfers in	34,545	89,129	123,674	-
Operating transfers out	-	(409)	(409)	-
Net cash provided (used) by noncapital financing activities	94,268	(401,375)	(307,107)	(4,617)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Payments for the purchase of property	(100,816)	(23,554)	(124,370)	(146,166)
Debt principal paid	(155,044)	(101,165)	(256,229)	(6,637)
Debt interest paid	(42,834)	(39,741)	(82,575)	(2,166)
Cash received from sale of capital assets	-	-	-	3,690
Net cash (used) by capital and related financing activities	(298,694)	(164,480)	(463,174)	(151,309)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	43,585	53,751	97,336	-
Net cash provided by investing activities	43,585	53,751	97,336	-

(Continued on following page)

Page 54

CITY OF ANDERSON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Sewer Fund	Total	Governmental Activities - Internal Service Fund
Net increase (decrease) in cash and cash equivalents	(108,705)	(398,784)	(505,490)	(19,072)
Cash and cash equivalents, beginning of year	162,008	1,388,973	1,550,981	886,812
Cash and cash equivalents, end of year	\$ 53,303	\$ 992,179	\$ 1,045,482	\$ 847,740
SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital assets contributed	\$ -	\$ -	\$ -	\$ 495,490

(Continued on following page)

Page 55

CITY OF ANDERSON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Water Fund	Sewer Fund	Total	Governmental Activities - Internal Service Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (62,490)	\$ (20,547)	\$ (83,037)	\$ (59,870)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization expense	167,028	166,669	333,697	186,050
(Increase) decrease in:				
Accounts receivable	(30,443)	1,320	(29,123)	9,141
Inventories	(4,354)	(2,508)	(6,862)	(7,213)
Due from other governments	(847)	-	(847)	-
Prepaid expenses and deferred charges	-	-	-	(495)
Increase (decrease) in:				
Accounts payable	(13,647)	(31,180)	(44,827)	9,564
Accrued payroll and benefits	(1,474)	632	(842)	2,775
Deferred revenue	(1,821)	(482)	(2,303)	(5,000)
Customer/employee deposits	1,560	-	1,560	-
Compensated absences payable	(1,376)	1,406	30	1,902
Total adjustments	114,626	135,857	250,483	196,724
Net cash provided by operating activities	\$ 52,136	\$ 115,310	\$ 167,446	\$ 136,854
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:				
Cash and cash equivalents	\$ 34,546	\$ 990,096	\$ 1,024,642	\$ 847,740
Restricted assets:				
Cash and cash equivalents	18,757	2,083	20,840	-
	<u>\$ 53,303</u>	<u>\$ 992,179</u>	<u>\$ 1,045,482</u>	<u>\$ 847,740</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ANDERSON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2006

	Total Agency Funds
ASSETS	
Cash in bank	\$ 494,117
Accounts receivable	-
Total assets	\$ 494,117
LIABILITIES	
Accounts payable	\$ 1,380
Accrued liabilities	265,395
Due to other groups	227,342
Total liabilities	\$ 494,117

The accompanying notes are an integral part of these financial statements.

CITY OF ANDERSON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Anderson, California (City) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

REPORTING ENTITY

The City of Anderson, California is a municipal corporation governed by an elected five-member council. As required by accounting principles generally accepted in the United States of America, these financial statements include all of the funds of the City, as well as all of its component units. Component units are legally separate entities for which the City is financially accountable.

Due to financial and operational relationships the City has two component units – the Anderson Redevelopment Agency and the Anderson Public Financing Authority. Based on the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, these component units are blended into the City's basic financial statements, as the governing bodies are the same as the governing body of the City.

Anderson Redevelopment Agency

The Anderson Redevelopment Agency (Redevelopment Agency) is a community redevelopment agency formed, organized and existing pursuant to the provisions of the Community Redevelopment Law of the State of California (California Health and Safety Code, Section 33000 et seq.) The Redevelopment Agency is vested with the responsibility of carrying out a duly adopted redevelopment plan.

Anderson Public Financing Authority

In order to facilitate the financing of public improvements, as well as other facilities and improvements which can be funded through the issuance of tax exempt bonds, the City Council and the governing board of the Anderson Redevelopment Agency established a joint powers agency known as the Anderson Public Financing Authority (Authority). The Authority is authorized, among other things, to issue bonds pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985 for the purpose of financing facilities and improvements.

Page 58

Complete financial statements of the Anderson Redevelopment Agency may be obtained from the Finance Department of the City of Anderson at 1887 Howard St., Anderson, California 96007.

BASIS OF PRESENTATION

The financial statement presentation required by Governmental Accounting Standards Board (GASB) Statements No. 34, 37, 38, and 39 provides a comprehensive, entity-wide perspective of the City's overall financial position and results of operations while maintaining the presentation of the financial position, results of operations and cash flows, as applicable, of the City's major funds.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the City of Anderson. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenues.

The accounts of the City are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund statements.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Page 59

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Gas Tax Fund accounts for State funds received for use in providing construction and maintenance of the street system of the City.

The ADAP and Home Fund accounts for the operating and financing of funds provided by Federal Housing and Urban Development for the rehabilitation and financing of homes.

The CDBG Fund accounts for funds provided by Federal Housing and Urban Development for the rehabilitation of homes and government structures in addition to accounting for program income from closed grants/loans.

The Southwest Redevelopment Housing Fund accounts for funds for providing housing for the Southwest Redevelopment Project Area.

The Riverside East Debt Service Fund accounts for debt service reserves as required by USDA for the Riverside East Sewer/Storm Drain project.

The Southwest Redevelopment Debt Service Fund accounts for debt service reserves for the Southwest Redevelopment Agency.

The Teen Center Building Fund accounts for revenues and expenses related to the construction of the Teen Center and Public Health building.

Page 60

The Southwest Redevelopment Capital Projects Fund accounts for the project related redevelopment activities of the Southwest Project Area.

The 2005 Southwest Redevelopment Capital Project Fund accounts for the project related redevelopment activities associated with the 2005 Southwest Redevelopment Tax Allocation Bonds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water utility.

The Sewer Fund accounts for the operation and maintenance of the City's waste water utility.

Additionally, the City reports the following fund types:

Internal Service Fund accounts for data processing, customer service, maintenance and fleet management services provided to other departments on a cost reimbursement basis.

Agency Funds account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds. These funds include Senior Bingo, Shasta Interagency Narcotics Task Force (SINTF), and the County Seizure Agency Funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, including fees, fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenue. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to

Page 61

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

BUDGETS

Budgets for the General Fund, special revenue funds and debt service funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Formal budgetary integration is employed as a management control device during the year for these funds. Proprietary fund budgeting parallels that of private business enterprises. Expenditures may not legally exceed budgeted appropriations at the fund level. The City Manager is authorized to make budget transfers within any fund (the legal level). All revisions must be reported to the City Council before the end of the fiscal year. All unencumbered and unexpended appropriations lapse at the end of the fiscal year. Encumbrances are reappropriated in the ensuing year's budget.

CASH AND CASH EQUIVALENTS

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments that are both readily convertible to known amounts of cash and (if applicable), so near (three months) their original maturity, that there is insignificant risk of value changes because of interest rate changes. Funds in the State Treasurer's Investment Pool (LAIF) are considered cash equivalents.

All of the City's investments at June 30, 2006 meet the above definition of cash equivalents.

The City follows the practice of pooling cash and investments of all funds, except for restricted funds required to be held separately. Interest income earned on pooled cash and investments is allocated semi-annually to the various funds based on monthly cash balances.

The California Government Code and the investment policy of the City authorize the City to invest in obligations, participations, or other instruments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor's Corporation or Moody's Investor Service, Inc., bankers' acceptances, repurchase agreements, the State Treasurer's Investment Pool (LAIF), certificates of deposit or time deposits, and passbook savings account demand deposits. Reverse repurchase agreements may be made only when prior approval of the City Council has been given.

Investments are reported at fair value based on quoted market prices with realized and unrealized gains or losses reported in the statements of net assets and the statements of revenues, expenditures and changes in fund balances. The State Treasurer's Investment Pool (LAIF) operates in accordance with appropriate state laws and regulations. The reported value of the pool is materially equivalent to the fair value of the pool shares.

RECEIVABLES

The water and sewer departments record service fees when earned with a corresponding receivable. The City records an allowance for doubtful accounts for all water and sewer receivables which they deem uncollectible. The City determined there were no material uncollectible receivables at June 30, 2006.

Loans receivable consist of loans to individuals for housing rehabilitation and to businesses for construction and business loans. The City considers all loans receivable to be collectible.

Taxes receivable consist of various sales and use taxes, property taxes, and special assessments. The City considers all taxes receivable to be collectible.

INVENTORIES

Proprietary Fund inventories are adjusted to annual physical counts and are valued at cost, which approximates market, utilizing the weighted average method of valuation. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

PREPAID EXPENSES AND DEFERRED CHARGES

Payments made to vendors for services that will benefit the City for periods beyond the current fiscal year are recorded as prepaid expenses.

INTERFUND TRANSACTIONS AND BALANCES

During the course of operations, numerous transactions that constitute reimbursements to a fund for expenditures/expenses initially made from one fund that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. In addition, on a less occasional basis, the City incurs transactions that constitute quasi-external transactions between funds. These transactions are accounted for as revenues, expenditures or expenses in the funds involved in these transactions.

All other interfund transactions are reported as transfers.

Fund transfers are necessary to properly account for cash increases/decreases in the appropriate funds. Transfers include, but are not limited to, the following:

1. To allocate funds for operations;
2. To allocate funds for equipment replacement;
3. To allocate funds for capital projects.

These transactions result in short-term interfund receivables and payables that are classified as "due from other funds" or "due to other funds" and in long-term interfund receivables and payables that are classified as "advances to other funds" or "advances from other funds" on the Balance Sheet – Governmental Funds and Statement of Net Assets – Proprietary Funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

RESTRICTED ASSETS

Certain proceeds of debt issues, as well as certain reserves set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

NONCURRENT RECEIVABLES

Noncurrent portions of loans and interest receivable are reported on the governmental funds balance sheet in spite of the spending measurement focus of the governmental funds. As they are not "available spendable resources," noncurrent portions of loans receivable are offset by a reservation of fund balance, and noncurrent portions of interest receivable are offset by a corresponding deferred revenue (other liability) amount.

CAPITAL ASSETS

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at actual historical cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	Primarily 25 to 50 years
Improvements	Primarily 10 to 30 years
Equipment	Primarily 5 to 10 years
Vehicles	Primarily 5 to 10 years

It is the policy of the City to capitalize all land, buildings, improvements, equipment, vehicles and infrastructure assets, except assets costing less than \$1,000. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period.

The City's capital assets include infrastructure acquired on or after July 1, 2002. GASB Statement No. 34 does not require retrospective reporting of infrastructure for the City.

COMPENSATED ABSENCES

Vested or accumulated vacation leave, sick leave and compensatory time are accrued in the proprietary funds and in the government-wide statements as the benefits accrue to employees. However, a liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements. In accordance with accounting principles generally accepted in the United States of America, no liability is recorded for nonvesting accumulated rights to receive sick pay benefits.

DEFERRED REVENUES

Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

LONG-TERM LIABILITIES

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental funds financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NET ASSETS/FUND EQUITY

Net assets represent the difference between assets and liabilities. The City's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This represents the City's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.
- *Restricted net assets-expendable* – Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets* – Unrestricted net assets represent resources derived from taxes; licenses and permits; fines; forfeitures and penalties; and charges for services. These resources are used for transactions relating to the general operations of the City, and may be used at the discretion of the City Council to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the City's policy is to first apply the expense toward restricted resources, and then towards unrestricted resources.

In the fund financial statements, governmental fund reserves represent those portions of fund balance not appropriate for expenditure or legally segregated for a specific future use. Designated fund balances, if any, represent tentative plans for future use of financial resources.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

PROPERTY TAXES

Property taxes are assessed and collected by Shasta County. The County remits the property taxes to the City when the taxes are collected and the allocation has been determined. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 12, and are payable in two installments and become delinquent if not paid by December 10 and April 10.

The City participates in an alternative method of distribution of property tax levies and assessments known as the "Teeter Plan." The State Revenue and Taxation Code allows counties to distribute secured real property, assessment and supplemental property taxes on an accrual basis resulting in full payment to cities each fiscal year. Any subsequent delinquent payments and related penalties and interest during a fiscal year will revert to Shasta County. The Teeter Plan payment is included in property tax revenue.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2006 consisted of the following:

Cash on hand and in banks	\$ 668,463
State of California – Local Agency Investment Fund (LAIF)	7,142,893
U.S. Bank money market funds:	
First American Prime Obligation Class Y	<u>253,580</u>
	8,064,936
Less: Agency funds cash and cash equivalents	<u>494,117</u>
Total City wide cash and cash equivalents	<u>\$ 7,570,819</u>

Cash and cash equivalents as of June 30, 2006 are displayed on the government-wide Statement of Net Assets as follows:

Cash and cash equivalents	\$ 7,099,598
Restricted cash and cash equivalents	<u>471,221</u>
Total	<u>\$ 7,570,819</u>

Custodial credit risk:

This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy does not address custodial credit risk. As of June 30, 2006, \$798,260 of the City's cash balances in banks were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name. The funds in U.S. Bank are not subject to custodial credit risk as they are funds under contractual obligation.

Interest Rate Risk:

While the City's investment policy does not address interest rate risk, the City manages its exposure to interest rate risks through reliance on the managers of LAIF.

Equity in Pooled Cash and Investments:

The City invests funds in the State Treasurer's Pooled Money Investment Account (PMIA) through the Local Agency Investment Fund (LAIF), a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the City's position in the pool is materially equivalent to the value of pool shares. LAIF is an unrated external investment pool.

In accordance with authorized investment laws, the State Treasurer's Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2006, 2.567% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. In addition, PIMA's weighted average maturities was .40 years at June 30, 2006. (Copies of a report of LAIF's investments may be obtained from the State Treasurer's Office; Local Agency Investment Fund; P. O. Box 942809; Sacramento, CA 94209-0001).

NOTE 3 CAPITAL ASSETS

Beginning balances of capital assets are shown as restated for the prior period adjustments as listed in Note 13.

Capital asset activity for the year ended June 30, 2006, is summarized as follows:

Governmental activities:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Non-depreciable capital assets:					
Land	\$ 1,419,766	\$ -	\$ -	\$ -	\$ 1,419,766
Construction in progress	933,186	1,922,137	-	(709,019)	2,146,304
Non-depreciable capital assets total	2,352,952	1,922,137	-	(709,019)	3,566,070
Depreciable capital assets:					
Buildings	2,824,344	33,256	-	-	2,857,600
Improvements	1,363,092	693,761	-	709,019	2,765,872
Equipment	1,966,091	302,027	62,359	-	2,205,759
	6,153,527	1,029,044	62,359	709,019	7,829,231
Less accumulated depreciation:					
Buildings	1,287,436	81,902	-	-	1,369,338
Improvements	235,479	93,879	-	-	329,358
Equipment	1,661,555	192,803	62,359	-	1,791,999
	3,184,470	368,584	62,359	-	3,490,695
Depreciable capital assets, net	2,969,057	660,460	-	709,019	4,338,536
Governmental capital assets, net	\$ 5,322,009	\$ 2,582,597	\$ -	\$ -	\$ 7,904,606

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 238,620
Public safety	35,793
Public works	60,878
Planning	-
Community development	6,036
Recreation and cultural	27,267
Total governmental activities depreciation expense	\$ 368,584

Business-type activities:	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Non-depreciable capital assets:					
Construction in progress	\$ 69,387	\$ 32,485	\$ -	\$ (69,387)	\$ 32,485
Non-depreciable capital assets total	<u>69,387</u>	<u>32,485</u>	<u>-</u>	<u>(69,387)</u>	<u>32,485</u>
Depreciable capital assets:					
Buildings	911,858	-	-	-	911,858
Improvements	13,477,218	83,369	181,350	69,387	13,448,624
Equipment	487,636	9,072	19,002	-	477,706
	<u>14,876,712</u>	<u>92,441</u>	<u>200,352</u>	<u>69,387</u>	<u>14,838,188</u>
Less accumulated depreciation:					
Buildings	481,482	17,511	-	-	498,993
Improvements	6,078,449	284,180	181,350	-	6,181,279
Equipment	333,898	18,478	18,446	-	333,930
	<u>6,893,829</u>	<u>320,169</u>	<u>199,796</u>	<u>-</u>	<u>7,014,202</u>
Depreciable capital assets, net	<u>7,982,883</u>	<u>(227,728)</u>	<u>556</u>	<u>69,387</u>	<u>7,823,986</u>
Business-type capital assets, net	<u>\$ 8,052,270</u>	<u>\$ (195,243)</u>	<u>\$ 556</u>	<u>\$ -</u>	<u>\$ 7,856,471</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water	\$ 160,234
Sewer	159,935
Total business-type activities depreciation expense	<u>\$ 320,169</u>

NOTE 4 LONG-TERM LIABILITIES

Following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2006:

Governmental activities:	Amount of Original Issuance	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and loans payable:						
Revenue bonds:						
Limited Obligation Improvement Bonds, Series 2001	\$ 2,076,000	\$ 2,013,000	\$ -	\$ 23,000	\$ 1,990,000	\$ 24,000
Tax allocation bond:						
ARA Tax Allocation Bonds, 2005 Series Bonds	2,580,000	2,580,000	-	-	2,580,000	-
Financing leases:						
Refunding lease - City National Bank	135,841	67,712	-	10,887	56,825	10,257
Financing lease - City National Bank	232,000	212,876	-	19,932	192,944	20,774
Financing lease - Redding Joint Powers Authority	101,881	94,287	-	3,955	90,332	3,955
Financing lease - West America Bank	72,056	-	72,056	6,637	65,419	13,506
Total financing leases		<u>374,875</u>	<u>72,056</u>	<u>41,411</u>	<u>405,520</u>	<u>48,492</u>
Notes payable:						
Tri Counties Bank - The Oaks Loan	1,050,000	331,388	-	12,933	318,455	13,502
California Housing Finance Agency - HELP loan	320,000	320,000	-	-	320,000	-
Total notes payable		<u>651,388</u>	<u>-</u>	<u>12,933</u>	<u>638,455</u>	<u>13,502</u>
Other liabilities:						
Compensated absences		5,619,283	72,056	77,344	5,613,975	85,994
Total governmental activities		<u>5,824,306</u>	<u>305,020</u>	<u>291,641</u>	<u>5,837,685</u>	<u>108,147</u>

	Amount of Original Issuance	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:						
Bonds and loans payable:						
Certificates of Participation:						
2001 Wastewater System Improvements Certificates of Participation	232,570	226,500	-	2,500	224,000	2,500
Financing leases:						
Refunding lease - City National Bank	2,234,859	1,113,988	-	179,113	934,875	168,742
Financing lease - Department of Commerce	250,000	116,405	-	14,693	101,711	15,138
Financing lease - City National Bank	39,575	20,972	-	8,088	12,884	8,485
Installment sale agreement - City National Bank	320,000	280,591	-	27,773	252,817	29,037
Financing lease - West America Bank	280,000	256,915	-	24,063	232,854	25,072
Total financing leases		1,788,871	-	253,730	1,535,141	246,474
		2,015,371	-	256,230	1,759,141	248,974
Other liabilities:						
Compensated absences		65,572	53,112	53,081	65,603	32,796
Total business-type activities		2,080,943	53,112	309,311	1,824,744	281,770
Total long-term liabilities	\$ 7,905,249	\$ 358,132	\$ 600,952	\$ 7,662,429	\$ 389,917	

REVENUE BONDS

2,078,000 Limited Obligation Improvement Bonds, Series 2001
Issued November 14, 2001, for the purpose of installation and construction of certain sewer and storm drain improvements in the Riverside Avenue Assessment District, payable from property tax assessments and secured by sewer revenues. The balance is due in annual installments of \$39,358 to \$108,000 through September 2, 2041, bearing an interest rate of 4.375% payable semi-annually on March 2 and September 2.

TAX ALLOCATION BONDS

2,580,000 Anderson Redevelopment Agency Tax Allocation Bonds, Series 2005
Issued August 1, 2005, for the purpose of financing redevelopment project. Payable from future property tax increment in redevelopment project areas in annual installments of \$8,663 to \$127,948 through August 1, 2035 and bearing interest rates of 3% to 5.25%.

CERTIFICATES OF PARTICIPATION

232,570 2001 Wastewater System Improvements Certificates of Participation
Issued November 1, 2001 for the purpose of financing capital improvements to the wastewater system, secured by wastewater revenues. The balance is payable in annual installments of \$2,070 to \$12,500 through September 2, 2041 bearing an interest rate of 4.75% payable semi-annually on March 2 and September 2.

FINANCING LEASES

2,370,700 Refunding Lease - City National Bank
Issued October 1, 1997, for the purpose of refunding the 1990 Water Systems Improvement Certificates of Participation and a portion of the 1986 Certificates of Participation. The balance is due in annual installments of \$90,000 to \$210,000 through December 1, 2010, bearing an interest rate of 5.45%, payable semi-annually on June 1 and December 1.

232,000 Financing Lease - City National Bank
Issued April 20, 2004, for the purpose of the purchase of an animal control building facility. Principal and interest of \$14,312 is due semi-annually on November 14 and May 14, bearing an interest rate of 4.18%.

101,881 Financing Lease - Redding Joint Powers Financing Authority
Issued June 1, 1993, for the purpose of the purchase of an undivided five percent interest in a regional dispatch center. The balance is due in annual installments of \$3,639 to \$7,435 through March 1, 2023, bearing interest rates of 2% to 5%, payable semi-annually on September 1 and March 1.

250,000	Financing Lease - Department of Commerce Issued March 17, 1992 for the purpose of financing public improvements in connection with extending sewer and water lines to the Factory Outlet Shopping Center, payable in annual installments of \$9,038 through January 11, 2011 and bearing an interest rate of 3%.
39,575	Financing Lease - City National Bank Issued August 20, 2002 for the purpose of financing the purchase of a television viewing camera, secured by the camera. The balance is payable in semi annual installments of \$5,504 through September 19, 2007 and bearing an interest rate of 4.85%.
320,000	Installment Sale Agreement - City National Bank Issued September 2, 2003 for the purpose of financing the construction of a water well facility, secured by the well, payable in semi annual installments of \$20,045 through October 1, 2013 and bearing an interest rate of 4.5%.
280,000	Financing Lease - West America Bank Issued May 4, 2004 for the purpose of financing the construction of a well building, electrical controls and temporary fire pump. The balance is payable in semi annual installments of \$17,273 through May 4, 2014 and bearing an interest rate of 4.18%.
72,056	Financing Lease - West America Bank Issued October 12, 2005 for the purpose of financing purchase of a 2006 dump truck, payable in semi annual installments of \$8,074 through December 19, 2010 and bearing an interest rate of 4.25%.

NOTES PAYABLE

1,050,000	Tri Counties Bank – The Oaks Loan Original loan was for \$1,050,000, the loan was modified on October 15, 2004 to \$338,846 (as a significant portion of the underlying property was sold for \$700,000 and the proceeds were used to pay down the loan), unsecured, payable in monthly installments of \$2,713 through July 17, 2021 and bearing an interest rate of 6.1%.
320,000	California Housing Finance Agency - HELP Loan Issued on March 9, 2004 to assist with the rehabilitation of a 58-unit senior housing complex due on March 9, 2014 bearing an interest rate of 3%.

BONDS AND LOANS PAYABLE SUMMARY

Year Ended June 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 85,994	\$ 186,721	\$ 272,715	\$ 248,974	\$ 80,923	\$ 329,897
2008	110,129	246,357	356,486	259,038	68,045	327,083
2009	129,178	241,246	370,424	267,966	54,768	322,734
2010	148,318	235,358	383,676	278,805	90,981	369,786
2011	143,979	228,906	372,885	282,296	26,847	309,143
2012 – 2016	968,093	1,164,127	2,132,220	229,062	62,178	291,240
2017 – 2021	728,899	892,910	1,621,809	21,500	43,356	64,856
2022 – 2026	710,385	714,379	1,424,764	27,000	44,365	71,365
2027 – 2031	885,000	519,991	1,404,991	34,000	28,785	62,785
2032 – 2036	1,132,000	271,272	1,403,272	43,000	19,238	62,238
2037 – 2041	468,000	76,081	544,081	55,000	7,066	62,066
2042	106,000	2,319	108,319	12,500	-	12,500
Total	\$ 5,613,975	\$ 4,779,667	\$ 10,393,642	\$ 1,759,141	\$ 526,552	\$ 2,285,693

NOTE 5 SELF-INSURANCE

The City is a member of the Northern California Cities Workers' Compensation Fund, a Joint Powers Authority (JPA), for the purpose of providing a banking plan for member cities to provide their own workers' compensation insurance. In July 1981, the JPA instituted a program for the provision of liability insurance. In 1987, the JPA was rewritten and renamed the Northern California Cities Self Insurance Fund to combine and update the coverages of the plans. There has been no significant reduction in any of the insurance coverages from the prior year. Settled claims resulting from these programs have not exceeded insurance coverage in each of the past three fiscal years. The current agreement is as follows:

The Workers' Compensation Program comprises a banking or deductible layer for claims up to \$100,000 and a shared risk pool for claims from \$100,000 to \$500,000. Excess coverage is provided for claims over the shared risk layer up to the statutory limit. The liability program comprises a banking or deductible layer for claims up to \$25,000 (except employment practices liability which is \$50,000) and a shared risk pool for claims from \$25,000 (or \$50,000) to \$500,000. Excess coverage is provided for claims over the shared risk layer up to \$40,000,000.

Each member city is assessed a contribution which is intended to cover its share of the Authority's claims, operating costs and claim settlement expenses. Contributions are based on an actuarially determined rate for each coverage layer (pool), based on an estimate of the probable losses and expenses to be borne by that pool for the claim year. Additional cash contributions may be assessed on the basis of adverse loss experience. Refunds to members may be made if funds are determined to be surplus as a result of an actuarial study.

The banking or deductible layer is the member's deductible portion of each claim. As part of its services to members, a portion of the members' contributions is used to pay their deductibles. If a member's balance is insufficient, the Authority advances the necessary amounts and bills the member in the following year. Excess balances may likewise be used to offset subsequent year contributions.

The City of Anderson uses the "general fund" method to account for the costs of self-insurance. While the ultimate amount of the costs of self-insurance through June 30, 2006 is dependent on future developments, City management believes that the aggregate premiums paid to the JPA are adequate to cover the City's losses through June 30, 2006, including incurred but not reported claims (IBNRs). Claims paid for the workers' compensation and general liability programs for the fiscal year ended June 30, 2006 were \$99,504 and \$5,790, respectively.

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

INTERFUND BALANCES

The following is a summary of interfund balances as of June 30, 2006:

	Due From Other Funds	Due To Other Funds	Internal Balances
Governmental activities:			
Gas Tax Fund	\$ 174,935	\$ 174,935	\$ -
CDBG Fund	108,689	83,249	25,440
Southwest Redevelopment Housing Fund	-	299,686	(299,686)
Southwest Redevelopment Debt Service Fund	-	34,192	(34,192)
Teen Center Building Fund	-	508,682	(508,682)
Southwest Redevelopment 2005 Capital Projects Fund	422,714	-	422,714
Other governmental funds	36,653	180,274	(143,621)
Internal service fund	-	4,847	(4,847)
Total governmental activities	742,991	1,285,865	(542,874)
Business-type activities:			
Water Fund	2,105	12,266	(10,161)
Sewer Fund	553,035	-	553,035
Total business-type activities	555,140	12,266	542,874
Total government-wide statement	\$ 1,298,131	\$ 1,298,131	\$ -

	Advances To Other Funds	Advances From Other Funds	Internal Balances
Governmental activities:			
Gas Tax Fund	\$ 100,000	\$ -	\$ 100,000
CDBG Fund	5,104	-	5,104
Southwest Redevelopment Housing Fund	-	914,684	(914,684)
Southwest Redevelopment Debt Service Fund	-	80,262	(80,262)
Other governmental funds	340,284	220,766	119,518
Internal service fund	21,836	26,940	(5,104)
Total governmental activities	487,224	1,242,652	(775,428)
Business-type activities:			
Water Fund	742,059	-	742,059
Sewer Fund	33,369	-	33,369
Total business-type activities	775,428	-	775,428
Total government-wide statement	\$ 1,242,652	\$ 1,242,652	\$ -

TRANSFERS

The following is a summary of transfers for the year ended June 30, 2006:

	Operating Transfers In	Operating Transfers Out	Transfers
Governmental activities:			
Gas Tax Fund	\$ -	\$ 6,601	\$ (6,601)
CDBG Fund	30,000	30,000	-
Southwest Redevelopment Housing Fund	94,462	-	94,462
Riverside East Debt Service Fund	409	-	409
Southwest Redevelopment Debt Service Fund	106,978	226,195	(119,218)
Southwest Redevelopment Capital Projects Fund	131,733	-	131,734
Southwest Redevelopment 2005 Capital Projects Fund	-	106,978	(106,978)
Other governmental funds	12,501	129,574	(117,073)
Total governmental activities	378,083	499,348	(123,265)
Business-type activities:			
Water Fund	34,545	-	34,545
Sewer Fund	89,129	409	88,720
Total business-type activities	123,674	409	123,265
Total government-wide statement	\$ 499,757	\$ 499,757	\$ -

The City's routine transfers include transfers made to move (a) unrestricted revenues or balances that have been collected or accumulated in the General Fund to other funds based on budgetary authorization, and (b) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them. All transfers during the year were routine and all balances are expected to be collected in the subsequent year.

NOTE 7 RETIREMENT PLAN

PERS funding progress information for the City of Anderson has been consolidated by PERS with other cities with less than 100 employees. Therefore, this information is not available solely for the City's funding progress and thus has not been presented in these financial statements.

A. Plan Descriptions

The City of Anderson contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 16.326% for miscellaneous employees, and 38.683% for safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

C. Annual Pension Cost

For the fiscal year ended June 30, 2006, the City's annual pension cost of \$659,434 was equal to the City's actual and required contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay.

The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases of 3.25% to 14.45% for miscellaneous employees and 3.25% to 13.15% for safety employees and (c) 2% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.00% and a payroll growth component of 3.25%. The actuarial value of PERS' assets was determined using a technique that smooths the effect of short-term volatility in the market value of investments over a three year period. The amortization method is the Level Percent of Payroll method. The amortization period is a closed period and varies between the two different plans of the City. For the fiscal year ended June 30, 2006, the amortization periods were 15 years for the Miscellaneous plan and 14 years for the Safety plan.

THREE-YEAR TREND INFORMATION FOR PERS

Miscellaneous Plan

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ 210,837	100 %	\$ -
6/30/05	219,422	100 %	-
6/30/06	332,732	100 %	-

Safety Plan

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ 244,997	\$ 100 %	-
6/30/05	273,133	100 %	-
6/30/06	326,702	100 %	-

NOTE 8 DEFICIT FUND BALANCES/RETAINED EARNINGS

At June 30, 2006, the funds listed below reported deficit fund balances or retained earnings:

<u>Fund</u>	<u>Amount</u>
Governmental funds:	
Southwest Redevelopment Housing Fund	\$ 108,403
Southwest Redevelopment Debt Service Fund	51,109
Teen Center Building Fund	312,111
State and Federal Transportation Fund	9,479
Shastec Project Area Fund	44,021

NOTE 9 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2006, expenditures exceeded appropriations in the following funds:

<u>Fund</u>	<u>Amount</u>
Southwest Redevelopment Housing Fund	\$ 65,687

The excess expenditures for the Southwest Redevelopment Housing Fund were funded by transfers from other RDA funds.

NOTE 10 CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is involved in various litigation; however, in the City Attorney's opinion, the potential claims against the City resulting from such litigation would not materially affect the accompanying financial statements.

NOTE 11 CONSTRUCTION COMMITMENTS

At June 30, 2006, the City had commitments outstanding, in the form of contracts and purchase orders, of approximately \$3,075,985 for construction.

NOTE 12 RESTRICTED NET ASSETS

The government-wide statement of net assets reports \$12,228,997 of restricted net assets, of which \$429,125 is restricted by enabling legislation.

NOTE 13 PRIOR PERIOD ADJUSTMENTS

During the prior year, loans and interest receivable for the ADAP and Home Fund, the CDBG Fund and the Southwest Redevelopment Housing Fund were overstated. The correction of this error decreases beginning net assets/fund balance, loans receivable, and interest receivable by the amount stated below. There is no effect of this adjustment on operations of the current year.

During the prior year, fixed assets in the Government-wide Statement of Net Assets were understated. The correction of this error increases beginning net assets and fixed assets by the amount stated below. There is no effect of this adjustment on operations of the current year.

Entity Wide:	<u>Governmental Activities</u>
Net assets, June 30, 2005, as previously reported	\$ 13,782,898
Correction of loans receivable overstatement	(128,279)
Correction of interest receivable overstatement	(20,496)
Correction of fixed asset understatement	<u>135,739</u>
Net assets, June 30, 2005, as restated	\$ <u>13,789,862</u>

Governmental Activities:

	ADAP and Home Fund	CDBG Fund
Fund balances (deficit), June 30, 2005, as previously reported	\$ 3,931,071	\$ 1,934,319
Correction of loans receivable overstatement	(121,474)	(6,805)
Correction of interest receivable overstatement	-	(20,496)
Fund balances (deficit), June 30, 2005, as restated	<u>\$ 3,809,597</u>	<u>\$ 1,907,018</u>

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Street Lighting Fund – accounts for revenue and expenses of City owned street lights.

Curbs, Gutters and Sidewalks Fund – accounts for the revenues received for the construction of curbs, gutters, and sidewalks by the City.

Construction Capital Fund – accounts for impact fees that are restricted for improvements to the City's public facilities.

Drainage Capital Fund – accounts for impact fees that are restricted for improvements to the City's drainage system.

Parks Capital Fund – accounts for impact fees that are restricted for improvements to the City's parks and grounds.

Sewer Capital Fund – accounts for impact fees that are restricted for improvements to the City's sewer system.

Water Capital Fund – accounts for impact fees that are restricted for improvements to the City's water system.

Traffic Capital Fund – accounts for impact fees that are restricted to add or improve City streets and roads.

PSA 2 AAA Grant Fund – accounts for programs and in-home services to the senior population provided by funds received from the Older Americans Act and other State grants.

I-5/Deschutes Offramp Fund – accounts for revenues and expenses related to the development of the I-5/Deschutes interchange.

State and Federal Transportation Fund – accounts for Cal Trans dollars received which are specified for street projects.

COPS and LLEBG Grants Fund – accounts for law enforcement grant revenues and related expenses.

Asset Forfeiture Fund – accounts for revenues and expenditures of funds received from seizures and forfeitures.

Parking District Fund – accounts for the receipts and expenditure of parking related funds.

EDBG Fund – accounts for EDBG program income and grants provided for acquisition of real property, business assistance loans and business assistance infrastructure.

Redevelopment Fund – accounts for housing funds related to the Shastec Project Area.

Charter – PEG Fees Fund – accounts for fees charged to cable tv users for the public access channel.

Mosquito Serenade Fund – accounts for the expenses and revenues of the Mosquito Serenade program.

Capital Projects Fund

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Shastec Project Area Fund – accounts for projects related to the redevelopment activities in the Shastec Project Area.

CITY OF ANDERSON
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue				
	Sewer Capital Fund	Water Capital Fund	Traffic Capital Fund	PSA 2 AAA Grant Fund	I-5/Deschutes Offramp Fund
ASSETS					
Cash and cash equivalents	\$ 434,649	\$ 15,060	\$ 52,035	\$ 1,093	\$ 220,511
Receivables:					
Interest	-	-	-	-	-
Loans	-	-	-	-	-
Due from other governments	-	-	-	-	-
Due from other funds	10,102	-	7,479	-	-
Advances to other funds	126,126	-	214,158	-	-
Total assets	\$ 570,877	\$ 15,060	\$ 273,672	\$ 1,093	\$ 220,511

(Continued on following page)

Page 87

CITY OF ANDERSON
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue				
	Sewer Capital Fund	Water Capital Fund	Traffic Capital Fund	PSA 2 AAA Grant Fund	I-5/Deschutes Offramp Fund
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,825	\$ 1,825	-	\$ 484	\$ 14,185
Accrued payroll and benefits	-	-	-	608	-
Due to other funds	-	-	-	-	-
Advances from other funds	-	-	-	-	-
Total liabilities	1,825	1,925	-	1,092	14,185
FUND BALANCES (DEFICIT)					
Reserved for loans receivable	-	-	-	-	-
Reserved for advances	126,126	-	214,158	-	-
Reserved for line extension	68,296	106,393	-	-	-
Reserved for parkland acres	-	-	-	-	-
Unreserved:					
Undesignated, reported in:					
Special revenue funds	374,630	(93,258)	59,514	1	208,326
Capital projects fund	-	-	-	-	-
Total fund balances (deficit)	569,052	13,135	273,672	1	208,326
Total liabilities and fund balances	\$ 570,877	\$ 15,060	\$ 273,672	\$ 1,093	\$ 220,511

The accompanying notes are an integral part of these financial statements.

Page 88

CITY OF ANDERSON
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue				
	Sewer Capital Fund	Water Capital Fund	Traffic Capital Fund	PSA 2 AAA Grant Fund	I-5/Deschutes Offramp Fund
Revenues					
Licenses and permits	\$ 223,619	\$ 128,608	\$ 114,279	-	\$ 66,613
Use of money and property	21,285	-	15,148	-	8,252
Intergovernmental revenue	-	-	-	37,774	-
Charges for services	-	-	-	-	-
Other revenues	-	-	-	57,924	-
Total revenues	<u>244,904</u>	<u>128,608</u>	<u>129,427</u>	<u>95,698</u>	<u>74,865</u>
Expenditures					
Current:					
General government	17,140	7,140	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	4,195	-	63,459
Community development	-	-	-	-	-
Recreation and cultural	-	-	-	96,643	-
Capital outlay	304,768	752	-	-	-
Debt service:					
Interest and fiscal charges	-	828	1,487	-	-
Total expenditures	<u>321,908</u>	<u>8,720</u>	<u>5,682</u>	<u>96,643</u>	<u>63,459</u>

(Continued on following page)

Page 95

CITY OF ANDERSON
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue				
	Sewer Capital Fund	Water Capital Fund	Traffic Capital Fund	PSA 2 AAA Grant Fund	I-5/Deschutes Offramp Fund
Excess (deficiency) of revenues over (under) expenditures	<u>(77,004)</u>	<u>110,888</u>	<u>123,745</u>	<u>(945)</u>	<u>11,406</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	<u>(95,029)</u>	<u>(34,545)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(95,029)</u>	<u>(34,545)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(172,033)</u>	<u>85,343</u>	<u>123,745</u>	<u>(945)</u>	<u>11,406</u>
Fund balances (deficit), beginning of year	<u>741,085</u>	<u>(72,208)</u>	<u>149,927</u>	<u>946</u>	<u>194,920</u>
Fund balances (deficit), end of year	<u>\$ 569,052</u>	<u>\$ 13,135</u>	<u>\$ 273,672</u>	<u>\$ 1</u>	<u>\$ 206,326</u>

The accompanying notes are an integral part of these financial statements.

Page 96

**CITY OF LAKEPORT
California**

**Annual Financial Report
June 30, 2006**

**As Prepared by the City of Lakeport's
Finance Department**

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
Members of the City Council
City of Lakeport, California

**NICHOLSON
&
OLSON**
LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS

729 Sunrise Avenue, Suite 303

Roseville, California 95661

(916) 786-7997

(916) 786-6536 Fax

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lakeport, California, as of and for the fiscal year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City has not presented management's discussion and analysis that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lakeport, California, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information and schedule of funding progress as listed in the table of contents are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor
 Members of the City Council
 Lakeport, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lakeport's basic financial statements. The introductory section and other supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nicholson & Olson
 Certified Public Accountants
 Roseville, California
 July 25, 2007

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT 1-2

FINANCIAL STATEMENTS

Basic Financial Statements:
 Government-wide Financial Statements
 Statement of Net Assets 3
 Statement of Activities..... 4

Fund Financial Statements:
 Balance Sheet - Governmental Funds 5
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Assets 6
 Statement of Revenues, Expenditures, and Changes
 in Fund Balances - Governmental Funds 7
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities 8
 Statement of Net Assets - Proprietary Fund 9
 Statement of Revenues, Expenses, and Changes
 in Net Assets - Proprietary Fund 10
 Statement of Cash Flows - Proprietary Fund 11-12
 Statement of Fiduciary Net Assets - Fiduciary Funds 13

Notes to Financial Statements..... 14-32

REQUIRED SUPPLEMENTARY INFORMATION

Statement of Revenues, Expenditures, and Changes in Fund
 Balances - Budget and Actual - General and Special Revenue Funds 33

Schedule of Funding Progress - Defined Benefit Pension Plan..... 34

ADDITIONAL REPORTS

Report on Compliance and on Internal Control over Financial
 Reporting Based on an Audit of Financial Statements
 Performed in Accordance with Government Auditing Standards 35

FINANCIAL STATEMENTS

**CITY OF LAKEPORT
Statement of Net Assets
Government-wide Financial Statements
June 30, 2006**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 2,803,622	\$ 2,293,307	\$ 5,096,929
Cash and investments with fiscal agent	1,189,501	-	1,189,501
Accrued interest	36,666	-	36,666
Taxes receivable	71,199	-	71,199
Other receivables	302,469	379,236	681,705
Inventory	-	108,467	108,467
Notes receivable	686,341	-	686,341
Capital assets, net	4,221,027	18,820,261	23,041,288
Deferred charges	136,820	23,588	160,408
Total Assets	9,447,645	21,624,859	31,072,504
LIABILITIES			
Accounts payable	39,991	19,067	59,058
Accrued payroll and benefits	105,009	34,275	139,284
Interest payable	38,465	115,101	153,566
Deferred revenue	30,158	169,149	199,307
Long-term liabilities:			
Due within one year	69,128	178,162	247,290
Due in more than one year	2,480,543	8,137,034	10,617,577
Total Liabilities	2,763,294	8,652,788	11,416,082
NET ASSETS			
Invested in capital assets, net of related debt	1,987,469	10,505,065	12,492,534
Unrestricted	4,696,802	2,467,006	7,163,808
Total Net Assets	\$ 6,684,351	\$ 12,972,071	\$ 19,656,422

See accompanying notes to financial statements

CITY OF LAKEPORT
Statement of Activities
Government-wide Financial Statements
Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Operating Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General government	\$ 1,523,316	\$ 695,696	\$ 21,291	\$ (806,329)	\$ -	\$ (806,329)
Public safety	1,654,793	-	124,476	(1,530,317)	-	(1,530,317)
Public works, streets and planning	834,517	3,790	290,610	(540,117)	-	(540,117)
Parks and recreation	366,814	-	-	(366,814)	-	(366,814)
Interest on long-term debt	115,188	-	-	(115,188)	-	(115,188)
Total governmental activities	4,494,628	699,486	436,377	(3,358,765)	-	(3,358,765)
Business-type Activities:						
Water utility	1,310,220	1,512,520	-	-	202,300	202,300
Sewer utility	2,458,320	1,405,314	-	-	(1,053,006)	(1,053,006)
Total business-type activities	3,768,540	2,917,834	-	-	(850,706)	(850,706)
Totals	\$ 8,263,168	\$ 3,617,320	\$ 436,377	(3,358,765)	(850,706)	(4,209,471)
		General Revenues and Transfers				
		Taxes:				
			Sales tax	1,143,476	-	1,143,476
			Property taxes	1,735,132	405,678	2,140,810
			Transient occupancy taxes	124,348	-	124,348
			Other taxes	531,090	-	531,090
			Motor vehicle	33,361	-	33,361
			Franchise fee	141,585	-	141,585
			Use of money and property	154,316	83,780	238,096
			Other revenues	150,411	-	150,411
			Total General Revenues and Transfers	4,013,719	489,458	4,503,177
			Change in Net Assets	654,954	(361,248)	293,706
			Beginning Net Assets	6,029,397	13,333,319	19,362,716
			Ending Net Assets	\$ 6,684,351	\$ 12,972,071	\$ 19,656,422

See accompanying notes to financial statements

**CITY OF LAKEPORT
Balance Sheet
Governmental Funds
June 30, 2006**

	General	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 338,001	\$ 902,376	\$ 1,563,245	\$ 2,803,622
Cash and investments with fiscal agent	-	-	1,189,501	1,189,501
Accrued interest	36,666	-	-	36,666
Taxes receivable	29,382	41,817	-	71,199
Other receivables	291,839	-	10,630	302,469
Due from other funds	259,227	-	-	259,227
Notes receivable	-	-	686,341	686,341
TOTAL ASSETS	\$ 955,115	\$ 944,193	\$ 3,449,717	\$ 5,349,025
LIABILITIES				
Accounts payable	\$ 38,716	\$ 851	\$ 424	\$ 39,991
Salaries and benefits payable	105,009	-	-	105,009
Deferred revenue	30,158	-	686,341	716,499
Due to other funds	-	-	259,227	259,227
TOTAL LIABILITIES	173,883	851	945,992	1,120,726
EQUITY				
Fund balances:				
Reserved for debt service	-	-	1,196,876	1,196,876
Unreserved, reported in:				
General fund	781,232	-	-	781,232
Special revenue funds	-	-	893,292	893,292
Capital Projects funds	-	943,342	413,557	1,356,899
TOTAL FUND EQUITY	781,232	943,342	2,503,725	4,228,299
TOTAL LIABILITIES AND EQUITY	\$ 955,115	\$ 944,193	\$ 3,449,717	\$ 5,349,025

See accompanying notes to financial statements

**CITY OF LAKEPORT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2006**

TOTAL FUND EQUITY - GOVERNMENTAL FUNDS (page 5)	\$ 4,228,299
Amounts reported for governmental activities in the statement of net assets are different because:	
Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period during which the debt is outstanding. The costs are reported as expenditures of current financial resources in governmental funds.	136,820
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Governmental capital assets	\$ 5,714,992
Less: accumulated depreciation	(1,493,965)
	4,221,027
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred.	(38,465)
In governmental funds, other long-term assets are not available to pay for current-period expenditures and, therefore, are offset by deferred revenue.	686,341
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds:	
Accrued compensated absences	(246,985)
Bonds payable	(2,185,000)
Capital lease purchase	(117,686)
	(2,549,671)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (page 3)	\$ 6,684,351

See accompanying notes to financial statements

CITY OF LAKEPORT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006

	General	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
REVENUES				
Intergovernmental revenues	\$ 153,075	\$ -	\$ 312,495	\$ 465,570
Taxes	3,102,708	516,233	145,913	3,764,854
Licenses and permits	110,235	-	-	110,235
Fines and penalties	32,610	-	-	32,610
Use of money and property	61,789	19,290	73,237	154,316
Charges for services	471,586	-	-	471,586
Other revenue	1,650	1,757	147,004	150,411
Total Revenues	<u>3,933,653</u>	<u>537,280</u>	<u>678,649</u>	<u>5,149,582</u>
EXPENDITURES				
Current -				
General government	935,768	385,113	171,136	1,492,017
Public safety	1,592,469	-	-	1,592,469
Public works, street, and planning	789,068	-	-	789,068
Parks and recreation	310,010	-	-	310,010
Capital outlay	459,070	-	-	459,070
Debt service -				
Principal retirement	88,995	-	55,000	143,995
Interest	2,401	-	116,395	118,796
Total Expenditures	<u>4,177,781</u>	<u>385,113</u>	<u>342,531</u>	<u>4,905,425</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(244,128)</u>	<u>152,167</u>	<u>336,118</u>	<u>244,157</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the issuance of debt	160,815	-	-	160,815
Operating transfers in	118,590	-	497,740	616,330
Operating transfers (out)	-	(207,604)	(408,726)	(616,330)
Total Other Financing Sources (Uses)	<u>279,405</u>	<u>(207,604)</u>	<u>89,014</u>	<u>160,815</u>
NET CHANGE IN FUND BALANCES	35,277	(55,437)	425,132	404,972
FUND BALANCES - BEGINNING OF YEAR	745,955	998,779	2,078,593	3,823,327
FUND BALANCES - END OF YEAR	<u>\$ 781,232</u>	<u>\$ 943,342</u>	<u>\$ 2,503,725</u>	<u>\$ 4,228,299</u>

See accompanying notes to financial statements

CITY OF LAKEPORT
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2006

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the (Governmental-wide) Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS (page 7) \$ 404,972

Amounts reported for governmental activities in the Statement of Net Assets are difference because:

Repayment of long-term receivables are treated as revenue in the governmental funds, but the repayment reduces long-term receivables in the Statement of Net Assets. Issuance of long-term receivables are treated as expenditures in the governmental funds, but the issuance increases long-term receivables in the Statement of Net Assets.

Issuance of loans	20,000
Repayment of loans	(20,000)

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures are added back to fund balances	459,070
Depreciation expense not reported in governmental funds	(191,603)

The amounts below included in the Statement of Activities do not provide (require) the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds (net change):

Interest payable	9,361
Compensated absences	(4,273)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	143,995
Amortization expense of issuance costs	(5,753)
Issuance of long-term debt	<u>(160,815)</u>

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES (page 4) \$ 654,954

See accompanying notes to financial statements

**CITY OF LAKEPORT
Statement of Net Assets
Proprietary Fund
June 30, 2006**

	Enterprise Funds		Totals
	Water	Sewer	
ASSETS			
Cash and investments	\$ 840,881	\$ 1,452,426	\$ 2,293,307
Receivables	171,720	207,516	379,236
Inventory	68,367	40,100	108,467
Capital assets, net	4,939,176	13,881,085	18,820,261
Deferred charges	23,588	-	23,588
Total Assets	6,043,732	15,581,127	21,624,859
LIABILITIES			
Accounts payable	7,073	11,994	19,067
Accrued payroll and benefits	16,637	17,638	34,275
Interest payable	59,726	55,375	115,101
Customer deposits	169,149	-	169,149
Long-term liabilities:			
Due within one year	82,162	96,000	178,162
Due in more than one year	3,535,289	4,601,745	8,137,034
Total Liabilities	3,870,036	4,782,752	8,652,788
NET ASSETS			
Investment in capital assets, net of related debt	1,321,725	9,183,340	10,505,065
Unrestricted	851,971	1,615,035	2,467,006
Total Net Assets	\$ 2,173,696	\$ 10,798,375	\$ 12,972,071

See accompanying notes to financial statements

**CITY OF LAKEPORT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
Year Ended June 30, 2006**

	Enterprise Funds		Totals
	Water	Sewer	
OPERATING REVENUES			
Charges for current services	\$ 1,497,887	\$ 1,370,472	\$ 2,868,359
Other income	14,633	34,842	49,475
Total Operating Revenues	1,512,520	1,405,314	2,917,834
OPERATING EXPENSES			
Salaries and Benefits	621,966	654,170	1,276,136
Utility Costs	92,357	168,476	260,833
Material, Supply and Service Costs	217,013	666,038	883,051
Travel and Training	7,083	3,949	11,032
Other	537	12,962	13,499
Amortization	19,429	-	19,429
Depreciation	177,366	721,584	898,950
Total Operating Expenditures	1,135,751	2,227,179	3,362,930
OPERATING INCOME (LOSS)	376,769	(821,865)	(445,096)
NONOPERATING REVENUES (EXPENSES)			
Property tax assessments	-	405,678	405,678
Use of money and property	19,886	63,894	83,780
Interest expense	(174,469)	(231,141)	(405,610)
Total Nonoperating Revenues (Expenses)	(154,583)	238,431	83,848
Change in Net Assets	222,186	(583,434)	(361,248)
NET ASSETS - BEGINNING OF YEAR	1,951,510	11,381,809	13,333,319
NET ASSETS - END OF YEAR	\$ 2,173,696	\$ 10,798,375	\$ 12,972,071

See accompanying notes to financial statements

CITY OF LAKEPORT
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2006

Page 1 of 2

	Enterprise Funds		Totals
	Water	Sewer	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,506,179	\$ 1,461,972	\$ 2,968,151
Payments to suppliers	(336,083)	(866,115)	(1,202,198)
Payments to employees	(627,716)	(644,728)	(1,272,444)
Net Cash Provided (Used) by Operating Activities	542,380	(48,871)	493,509
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Property tax assessments	-	405,678	405,678
Net Cash Provided (Used) by Noncapital Financing Activities	-	405,678	405,678
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on capital debt	(78,371)	(95,000)	(173,371)
Acquisition/purchase of capital assets	(233,897)	(48,850)	(282,747)
Interest paid on capital debt	(175,886)	(269,513)	(445,399)
Net Cash Provided (Used) by Capital and Related Financing Activities	(488,154)	(413,363)	(901,517)
CASH FLOWS FROM INVESTING ACTIVITIES			
Collection of investment earnings	19,886	63,894	83,780
Net Cash Provided (Used) by Investing Activities	19,886	63,894	83,780
NET INCREASE (DECREASE)	74,112	7,338	81,450
BEGINNING CASH AND CASH EQUIVALENTS	766,769	1,445,088	2,211,857
ENDING CASH AND CASH EQUIVALENTS	\$ 840,881	\$ 1,452,426	\$ 2,293,307

See accompanying notes to financial statements

CITY OF LAKEPORT
Statement of Cash Flows (Continued)
Proprietary Fund
Year Ended June 30, 2006

Page 2 of 2

	Enterprise Funds		Totals
	Water	Sewer	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$ 376,769	\$ (821,865)	\$ (445,096)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation, a noncash expense	177,366	721,584	898,950
Amortization, a noncash expense	19,429	-	19,429
Change in assets and liabilities:			
Receivables	(35,120)	56,658	21,538
Accounts payable	(19,093)	(14,690)	(33,783)
Salaries and benefits payable	37	17,638	17,675
Compensated absences	(5,787)	(8,196)	(13,983)
Deposits payable	28,779	-	28,779
Net Cash Provided (Used) by Operating Activities	\$ 542,380	\$ (48,871)	\$ 493,509

See accompanying notes to financial statements

**CITY OF LAKEPORT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006**

	<u>Special Deposits</u>	<u>Storm Drainage</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 169,703	\$ 303,398	\$ 473,101
TOTAL ASSETS	<u>\$ 169,703</u>	<u>\$ 303,398</u>	<u>\$ 473,101</u>
LIABILITIES			
Refundable deposits and trust liabilities	\$ 169,703	\$ 303,398	\$ 473,101
TOTAL LIABILITIES	<u>\$ 169,703</u>	<u>\$ 303,398</u>	<u>\$ 473,101</u>

See accompanying notes to financial statements

**CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006**

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the City as follows:

- Note 1 - Defining the Financial Reporting City
- Note 2 - Summary of Significant Accounting Policies
- Note 3 - Stewardship, Compliance, and Accountability
- Note 4 - Cash and Investments
- Note 5 - Capital Assets
- Note 6 - Long-Term Obligations
- Note 7 - Defined Benefit Pension Plan
- Note 8 - Post-Retirement Health Care Benefits
- Note 9 - Interfund Transactions
- Note 10 - Risk Management
- Note 11 - Commitments and Contingencies

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 1 - Defining the Financial Reporting City

The City of Lakeport (the City) was incorporated in 1888 under the laws of the State of California. Lakeport operates under a Council-Manager form of government. The City provides a full range of municipal services to its citizens including public safety, public works, planning and building regulation, recreation and parks, water and sewer services.

These financial statements present the financial status of the City and its component units. The component units discussed in the following paragraph are included in the City's reporting City because the City is financially accountable for its operations.

The Redevelopment Agency (the Agency) of the City of Lakeport was established by the City as a separate legal City in accordance with state law. The purpose of the Agency is to encourage new investment and reinvestment within legally designated redevelopment areas in partnership with property owners.

The Municipal Sewer District No. 1 was established as a separate legal City to obtain funding and construct a new sewage treatment plant and pumping stations in 1965. In later years an assessment district was formed for the purpose of financing needed improvements and expansion of the wastewater system.

Although the component units are legally separate from the City, they are reported on a blended basis as part of the primary government because its boards consists of members of the City Council. The component unit's financial statements may be obtained from the City.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below:

A. Government-wide and Fund Financial Statements

The government-wide financial statement report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (continued)

A. Government-wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) changes to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributors that are restricted to meeting the operational or capital requirements of a particular function or segment taxes, and other items not properly included among program revenues are reported instead as general revenues.

The accounts of the City are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

In the fund financial statements in this report, the various funds are grouped into six generic funds within three broad fund types. They are as follows:

Governmental Funds

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Projects Funds are used to account for revenues and expenditures restricted to the acquisition or construction of major capital facilities (other than those financed by Proprietary or Trust funds).

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, governmental fund long-term debt, both principal and interest.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (continued)

A. Government-wide and Fund Financial Statements (concluded)

Proprietary Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges. The City accounts for the operation of its water and sewer utility funds on this basis.

Fiduciary Funds

Agency Funds are used to account for assets administered by the City in a trustee capacity or as an agent for other governments, and other funds. Agency Funds are custodial in nature (assets equal liabilities), and do not involve measurement of results of operations.

Trust Funds are used to account for assets held by the government in a trustee capacity.

B. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (continued)

B. Basis of Accounting and Measurement Focus (continued)

In the fund financial statements, all Governmental Funds and Agency Funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance the expenditures of the current period (susceptible to accrual). Major revenue sources susceptible to accrual include substantially all property taxes, taxpayer-assessed taxes (such as sales and use, utility users, business license, transient occupancy, franchise fees and gas taxes), interest, special assessments levied, state and federal grants and charges for current services. Revenues from licenses, permits, fines and forfeits are recorded as received. Expenditures are recorded when the related fund liability is incurred.

Fiduciary Fund revenues and expenses or expenditures (as appropriate) are recognized on the basis consistent with the fund's accounting measurement objective.

All Governmental Funds are accounted for using a current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they present a summary of sources and uses of "available spendable resources" during a period.

The government-wide financial statement, as well as the Proprietary Funds, is accounted for on a flow of economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary Fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statement to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (continued)

C. Use of Estimates

Financial statement preparation in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Investments

Cash and investments held in the City's investment pool are reported as cash and investments since funds can spend cash at any time without prior notice or penalty. All investments with fiscal agents are also considered cash equivalents if they are liquid. Investments are stated at fair value.

E. Receivables and Payables

Balances representing lending/borrowing transactions between funds outstanding at the end of the fiscal year are reported as either "due to/due from other funds" (amounts due within one year), "advances to/from other funds" (non-current portions of interfund lending/borrowing transactions), or "loans to/from other funds" (long-term lending/borrowing transactions as evidenced by loan agreements). Advances and loans to other funds are offset by a fund balance reserve in applicable Governmental Funds to indicate they are not available for appropriation, and are not expendable available financial resources.

Property, sales, use, and utility user taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of net assets. The amount recognized as revenue under the modified accrual basis of accounting is limited to the amount that is deemed measurable and available. The City considers these taxes available if they are received during the period when settlement of prior fiscal year accounts payable and payroll charges normally occur.

Grants, entitlements or shared revenues are recorded as receivables and revenues in the General, Special Revenue and Capital Projects Funds when they are received or susceptible to accrual.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (continued)

F. Allowance for Doubtful Accounts

Management has elected to record bad debts using the direct write-off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

G. Inventories

The inventory held by the Proprietary Fund is stated at cost. Materials and supplies used by Governmental Funds are recorded as expenditures at the time they are purchased or obtained.

H. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are stated at historical cost, when available and at estimated replacement cost when original cost was not available. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which range from five to forty years.

Donated assets are stated at estimated market value at the date of donation.

Capital leases are recorded at the present value of future minimum lease payments. Related assets are classified as capital assets and depreciated.

I. Compensated Absences

Compensated absences represent the vested portion of accumulated vacation and sick leave. In Governmental Funds, the cost of vacation and sick leave benefits is recognized when payments are made to employees. Upon termination, 100% of vacation leave is paid. In Proprietary Funds, a long-term liability for such benefits has been recorded.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (continued)

J. Deferred Revenue

Deferred revenue in governmental funds primarily represents funds under the City's housing rehabilitation and business assistance program. The program consists of long-term deferred payment loans of grant funds from the State, which were reported as grant revenues in the year received, and expenditures in the year the loans were made. Principal and interest payments, which are receivable at June 30, are offset by an equal amount of deferred revenue. Such payments will be recognized as revenue when received.

K. Long -Term Obligations

In the government-wide financial statements, and proprietary fund financial statement, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums, issuance costs and discounts are deferred and amortized over the life of the bond.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

L. Net Assets

The City's net assets are classified as follows:

- Invested in capital assets - This represents the City's total investment in capital assets net of any related debt.
- Restricted net assets - Restricted net assets include resources that the City is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- Unrestricted net assets - Unrestricted net assets represent resources derived from sources without spending restrictions. These resources are used for transactions relating the general operations of the City, and may be used at the discretion of the governing board to meet current expenses for any purpose.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (continued)

M. Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level and consist of secured, unsecured and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations - are established by the Assessor of the Lake County for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13, adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increase to full value is allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations and is subject to annual reappraisal.

Tax Levies - are limited to 1% of full assessed value which results in a tax rate of \$1.00 per \$100 assessed valuation under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates - are attached annually on January 1, preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections - are the responsibility of the county's tax collector. Taxes and assessments on secured and utility rolls, which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments. The City has elected to receive the City's portion of the property taxes from the County under the Teeter Bill. Under this program, the City receives 100% of the City's share of the levied property taxes in periodic payments with the County assuming responsibility for the delinquencies.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (concluded)

M. Property Taxes (continued)

Tax Levy Apportionments - Due to the nature of the City-wide maximum levy, it is not possible to identify general-purpose tax rates for specific entities. Under state legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county's auditor-controller based primarily on the ratio that each agency represented of the total City-wide levy for the three fiscal years prior to fiscal year 1979.

Property Tax Administration Fees - The State of California FY 90-91 Budget Act authorized counties to collect an administrative fee for collection and distribution of property taxes.

N. Governmental Accounting Standards Board Statement No. 40

During 2004-05 fiscal year, the City adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*. This statement is effective for periods beginning after June 15, 2004. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The statement requires certain disclosures of investment that have fair values that are highly sensitive to changes in interest rates.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

The City follows these procedures annually in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed draft budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at special scheduled sessions which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to July 1, the budget is adopted by minute action of the City Council.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 3 - Stewardship, Compliance, and Accountability (continued)

Budgetary Information (continued)

4. From the effective date of the budget, which is adopted and controlled at the department level, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by minute action during the fiscal year. The City Manager may authorize transfers from one object or purpose to another within the same department, and between departments within the General Fund. All appropriations lapse at year end.

Deficit Fund Equity

At June 30, 2006, certain funds had deficit fund equity balances as follows:

<u>Fund</u>	<u>Deficit Balance</u>
<i>Special Revenue Funds</i>	
Lakeport Housing	\$ 255,542
Downtown Improvement	3,685

Note 4 - Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 5,096,929
Cash and investments with fiscal agents	1,189,501
Fiduciary funds:	
Cash and investments	473,101
Total cash and investments	<u>\$ 6,759,531</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	\$ 400
Deposits with financial institutions	2,316,601
Investments	4,442,530
Total cash and investments	<u>\$ 6,759,531</u>

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 4 - Cash and Investments (continued)

Investments Authorized by the City's Investment Policy

The City's investment policy only authorizes investment in the local government investment pool administered by the State of California (LAIF). The City's investment policy does not contain any specific provisions intended to limit the City's exposure to *interest rate risk*, *credit risk*, and *concentration of credit risk*.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the *investment types* that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address *interest rate risk*, *credit risk*, and *concentration of credit risk*.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	180 days
Commercial Paper	270 days
Money Market Mutual Funds	N/A
Investment Contracts	30 years

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. At year end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 10.5 months. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

<u>Maturity Date</u>		
State investment pool	\$ 3,253,029	10.5 months average maturity
Money Market	1,189,501	N/A
Total	<u>\$ 4,442,530</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 4 - Cash and Investments (continued)

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total City investments.

Investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, discretely presented component unit, governmental activities, major fund, nonmajor funds in the aggregate, etc.) are as follows:

\$1,189,501 of the cash and investments (including amounts held by bond trustee) reported in the Redevelopment Debt Service Fund (a nonmajor fund of the City) are held in the form of money market funds.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits; other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 4 - Cash and Investments (concluded)

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 5 - Capital Assets

A summary of changes in the Governmental Activities follows:

Capital Assets	June 30, 2005	Additions	(Dispositions)	June 30, 2006
Land	\$ 296,186	\$ 27,000	\$ -	\$ 323,186
Buildings	2,619,229	-	-	2,619,229
Improvements	1,635,559	142,362	-	1,777,921
Equipment	704,948	289,708	-	994,656
	5,255,922	459,070	-	5,714,992
Less: Depreciation	(1,302,362)	(191,603)	-	(1,493,965)
	<u>\$ 3,953,560</u>	<u>\$ 267,467</u>	<u>\$ -</u>	<u>\$ 4,221,027</u>

A summary of changes in the Business-type Activities follows:

Water Utility	June 30, 2005	Additions	(Dispositions)	June 30, 2006
Land	\$ 40,170	\$ -	\$ -	\$ 40,170
Buildings, Improvements and infrastructure	6,087,750	179,418	-	6,267,168
Equipment	165,419	54,479	-	219,898
	6,293,339	233,897	-	6,527,236
Less: Depreciation	(1,410,694)	(177,366)	-	(1,588,060)
	<u>\$ 4,882,645</u>	<u>\$ 56,531</u>	<u>\$ -</u>	<u>\$ 4,939,176</u>

Sewer Utility

Land	\$ 1,735,233	\$ -	\$ -	\$ 1,735,233
Buildings, Improvements and infrastructure	19,021,186	-	-	19,021,186
Equipment	400,769	48,850	-	449,619
	21,157,188	48,850	-	21,206,038
Less: Depreciation	(6,603,369)	(721,584)	-	(7,324,953)
	<u>\$ 14,553,819</u>	<u>\$(672,734)</u>	<u>\$ -</u>	<u>\$ 13,881,085</u>

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 6 - Long-Term Obligations

Water Revenue Bonds

2002 Refunding Loan Agreement of the 1993 Water Revenue Bonds, total refunding issue \$873,577, WestAmerica Bank. Semi-annual principal and interest payments of approximately \$41,000, annual interest at 5.1%, due May 1 and November 1 each year, secured by water fund revenues, maturing in 2017.

Balance due \$ 708,728

Water Revenue Bonds

Series 2000 COPS, USDA Rural Development, total issue \$3,050,000. Annual principal and interest payments of approximately \$105,000, interest payable semi-annually at 4.75%, due February 1 and August 1 each year, secured by water fund revenues, maturing in 2039.

Balance due \$ 2,889,000

Sewer Revenue Bonds

1978 Series A, USDA Rural Development, total issue \$482,000. Annual principal and interest payments of approximately \$30,000, interest payable semi-annually at 5%, due January 1 and July 1 each year, secured by Municipal Sewer District No. 1 revenues, maturing in 2018.

Balance due \$ 254,000

Sewer District Improvement Bonds

Series 1993-1, USDA Rural Development, total issue \$5,196,270. Annual principal and interest payments of approximately \$115,000, interest payable semi-annually at 5%, due March 1 and September 1 each year, secured by Municipal Sewer District No. 1 revenues from the South Assessment District 91-1 area, maturing in 2032.

Balance due \$ 4,430,000

2004 Series A Bonds

2004 Series A, total issue \$1,070,000. Annual principal is due on September 1 and interest payments are semi-annually at 5.25%, due September 1 and March 1 each year, secured by Redevelopment property tax revenues, maturing in 2035.

Balance due \$ 1,050,000

2004 Series B Bonds

2004 Series B, total issue \$1,170,000. Annual principal is due on September 1 and interest payments are semi-annually at 5.31%, due September 1 and March 1 each year, secured by Redevelopment property tax revenues, maturing in 2035.

Balance due \$ 1,135,000

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 6 - Long-Term Obligations (continued)

Capital Lease

The City entered into a lease-purchase agreement with SunTrust Leasing Corporation for the acquisition of ten police vehicles. The lease was satisfied during the fiscal year.

The City entered into a lease-purchase agreement with SunTrust Leasing Corporation for the acquisition of Asphalt Grinder. Future minimum lease payments with the present value of the minimum lease payments at June 30, 2006 is as follows:

Year Ending June 30	Obligation
2007	\$ 43,129
2008	43,129
2009	43,129
Total lease payments	129,387
Less interest	(11,701)
Present value of future lease payments	<u>\$ 117,686</u>

Changes in Long-term Obligations comprise the following:

	June 30, 2005	Increases	Decreases	June 30, 2006	Due within One Year
<u>Governmental Activities</u>					
Bonds payable	\$ 2,240,000	\$ -	\$ 55,000	\$ 2,185,000	\$ 30,000
Capital lease	45,866	160,815	88,995	117,686	39,128
Compensated absences	242,712	4,273	-	246,985	-
Totals	<u>\$ 2,528,578</u>	<u>\$ 165,088</u>	<u>\$ 143,995</u>	<u>\$ 2,549,671</u>	<u>\$ 63,128</u>
<u>Business-type Activities</u>					
Revenue bonds	\$ 3,945,099	\$ -	\$ 93,371	\$ 3,851,728	\$ 98,162
Tax assessment bonds	4,510,000	-	80,000	4,430,000	80,000
Compensated absences	47,451	-	13,983	33,468	-
Totals	<u>\$ 8,502,550</u>	<u>\$ -</u>	<u>\$ 187,354</u>	<u>\$ 8,315,196</u>	<u>\$ 178,162</u>

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 6 - Long-Term Obligations (concluded)

Various bond indentures contain limitations and restrictions with which, in the opinion of management, the City is in compliance.

Future debt service requirements on long-term debt (not including capital leases) are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 30,000	\$ 115,395	\$ 178,162	\$ 404,143
2008	35,000	114,108	187,572	395,075
2009	35,000	112,606	198,607	385,548
2010	35,000	111,105	208,272	375,458
2011	40,000	109,603	219,075	364,884
2012-2016	220,000	516,896	1,267,762	1,646,392
2017-2021	285,000	452,809	1,219,279	1,318,415
2022-2026	370,000	364,614	1,318,500	1,016,468
2027-2031	500,000	248,404	1,676,500	648,083
2032-2036	635,000	103,426	1,181,500	251,672
2037-2040	-	-	616,500	60,266
	<u>\$ 2,185,000</u>	<u>\$ 2,248,966</u>	<u>\$ 8,281,729</u>	<u>\$ 6,866,404</u>

Deferred Debt Issuance Costs

Bond issuance costs are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

Note 7 - Defined Benefit Pension Plan

Plan Description

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS annual financial report may be obtained from their Executive Office, 400 "P" Street, Sacramento, California 95814.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 7 - Defined Benefit Pension Plan (continued)

Funding Status and Progress

Non-public safety participants are required to contribute 7% of their annual covered salary, while public safety employees are required to contribute 9% of their annual covered salary. The City makes the contributions required of city employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current 2005-2006 rate is 5.4% for non-public safety employees (miscellaneous plan) and 22.13% for public safety employees (safety plan), of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

The City's annual pension cost of \$514,653 PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) an 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, service and type of employment, (c) an inflation rate of 3.5%, and (d) a payroll growth rate of 3.75%.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	\$ 142,687	100%	\$ -0-
6/30/05	269,232	100%	-0-
6/30/06	514,653	100%	-0-

Note 8 - Post-Retirement Health Care Benefits

The City provides post employment benefit options for medical healthcare to eligible retirees. The plan is offered to qualified employees based upon years of service. For the fiscal year ended June 30, 2006, the City paid \$227,951 for retired employees covered under the plans.

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 9 - Interfund Transactions

With City Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made expenditure on behalf of another fund. Transfers between funds during the fiscal year ended June 30, 2006 were as follows:

<u>Transfers</u>	<u>Amounts Transferred In</u>	<u>Amounts Transferred Out</u>
General Fund	\$ 118,590	\$ -
Special Revenue Funds		
Gas tax funds	-	101,953
Lakeport Housing Program fund	290,136	-
Traffic Control Relief fund	-	16,637
Economic RLF reuse fund	-	290,136
Redevelopment agency fund	-	207,604
Debt Service Fund		
Redevelopment Debt Service fund	<u>207,604</u>	<u>-</u>
	<u>\$ 616,330</u>	<u>\$ 616,330</u>

Interfund Receivable/ Payable

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 259,227	\$ -
Special Revenue Funds		
Lakeport Housing Program fund	-	255,542
Downtown Improvement fund	-	3,685
	<u>\$ 259,227</u>	<u>\$ 259,227</u>

CITY OF LAKEPORT
Notes to Financial Statements
June 30, 2006

Note 10 - Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1978, the City joined together with other cities to form the Redwood Empire Municipal Insurance Fund (REMIF), a public City risk pool currently operating as a common risk management and insurance program for 16 member cities. The City pays an annual premium to REMIF for its workers' compensation, general liability and property coverage.

The coverage pays up to \$10,000 for property losses, \$10,000 for liability losses, and \$5,000 for workers' compensation losses. The City has excess insurance purchased by REMIF, except liability, which is pooled with the California Joint Powers Insurance Authority (a self funded risk sharing pool). The excess insurance limits are \$10,000 to \$295 million for property losses (except auto physical which is a maximum of \$1,000,000); \$10,000 to \$15 million for all liability losses; and \$5,000 to \$300,000 for workers' compensation losses. At June 30, 2006, the City determined that it needed no accrued liability or revenues for purposes of funding the City's potential future claim liabilities. REMIF issues a separate comprehensive annual financial report. Copies of that report may be obtained from REMIF at Post Office Box 885, Sonoma, California 95476.

Note 11 - Commitments and Contingencies

The City receives funding from a number of federal, state and local grant programs, principally the Community Development Block Grants. These programs are subject to financial and compliance review by grantors. Accordingly, the City's compliance with applicable grant requirements will be determined at some future date. Expenditures, if any, which may be disallowed by the granting agencies, cannot be determined at this time. The City does not expect the undeterminable amounts of disallowed expenditures, if any, to materially affect the financial statements. Receipt of these federal, state and local grant revenues is not assured in the future.

On November 5, 1996, California voters approved Proposition 218 which limited the ability of the state's local governments to impose, increase, and extend taxes, assessments, and fees. This applies to all taxes, assessments, and fees enacted or increased on or before January 1, 1995. The City is resolved to set forth procedures for bringing existing and new assessments, taxes, and fees into conformity with this law.

The full impact of Proposition 218 on the finances of the City, as well as all local governments in California, is currently not determinable. This will likely not be apparent until after the state legislature enacts implementing statutes or court rulings occur. Accordingly, no adjustments have been made to these financial statements.

CITY OF LAKEPORT
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General and Major Special Revenue Fund
Year Ended June 30, 2006

	GENERAL FUND			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Intergovernmental revenues	\$ 221,880	\$ 221,880	\$ 153,075	\$ (68,805)
Taxes	2,897,391	2,897,391	3,102,708	205,317
Licenses and permits	125,000	125,000	110,235	(14,765)
Fines and penalties	23,000	23,000	32,610	9,610
Use of money and property	150,590	150,590	61,789	(88,801)
Charges for services	104,000	104,000	471,586	367,586
Other revenue	4,000	4,000	1,650	(2,350)
Total Revenues	<u>3,525,861</u>	<u>3,525,861</u>	<u>3,933,653</u>	<u>407,792</u>
EXPENDITURES				
Current -				
General government	1,006,847	1,006,847	935,768	71,079
Public safety	1,584,837	1,584,837	1,592,469	(7,632)
Public works	811,984	811,984	789,068	22,916
Parks and recreation	367,314	367,314	310,010	57,304
Streets	-	-	459,070	(459,070)
Debt service -				
Principal retirement	-	-	88,995	(88,995)
Interest	-	-	2,401	(2,401)
Total Expenditures	<u>3,770,982</u>	<u>3,770,982</u>	<u>4,177,781</u>	<u>(406,799)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(245,121)</u>	<u>(245,121)</u>	<u>(244,128)</u>	<u>993</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the issuance of debt	-	-	160,815	160,815
Operating transfers in	-	-	118,590	118,590
Operating transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>279,405</u>	<u>279,405</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(245,121)</u>	<u>(245,121)</u>	<u>35,277</u>	<u>280,398</u>
FUND BALANCES - BEGINNING OF YEAR	<u>745,955</u>	<u>745,955</u>	<u>745,955</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 500,834</u>	<u>\$ 500,834</u>	<u>\$ 781,232</u>	<u>\$ 280,398</u>

See Independent Auditor's Report

CITY OF LAKEPORT
Schedule of Funding Progress
Defined Benefit Pension Plan
Year Ended June 30, 2006

Miscellaneous Plan	Actuarial Valuation Date - Year Ended		
	June 30, 2003	June 30, 2002	June 30, 2001
Actuarial Accrued Liability	\$ 8,058,411	\$ 6,780,660	\$ 6,159,329
Actuarial Value of Assets	7,420,115	7,253,320	7,659,570
Under funded Actuarial Accrued Liability (UAAL)	638,296	(472,660)	(1,500,241)
Funded Status ratio	92.1%	107.0%	124.4%
Annual Covered Payroll	1,565,988	1,533,084	1,561,909
UAAL as a Percentage of Payroll	40.8%	-30.8%	-96.1%
Safety Plan	Actuarial Valuation Date - Year Ended		
	June 30, 2003	June 30, 2002	June 30, 2001
Actuarial Accrued Liability	\$ 4,348,235	\$ 3,984,057	\$ 3,942,514
Actuarial Value of Assets	3,381,644	3,275,801	3,620,800
Under funded Actuarial Accrued Liability (UAAL)	966,591	708,256	321,714
Funded Status ratio	77.8%	82.2%	91.8%
Annual Covered Payroll	820,772	769,008	741,494
UAAL as a Percentage of Payroll	117.8%	92.1%	43.4%

Note - Details of the defined benefit pension plan can be found in Note 7 of the financial statements.

See Independent Auditor's Report

ADDITIONAL REPORTS

**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor
Members of the City Council
City of Lakeport, California

We have audited the financial statements of the City of Lakeport as of and for the year ended June 30, 2006, and have issued our report thereon dated July 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Lakeport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lakeport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, City Council, federal awarding agencies, and the Office of the Controller of the State of California and is not intended to be and should not be used by persons other than these specified parties.

Nicholson & Olson

Certified Public Accountants
July 25, 2007

Audited Financial Statements

City of Lakeport
Municipal Sewer District No. 1

June 30, 2006

**NICHOLSON
OLSON**

LIMITED LIABILITY PARTNERSHIP
CERTIFIED PUBLIC ACCOUNTANTS

729 Sunrise Avenue, Suite 303
Roseville, California 95661

**CITY OF LAKEPORT
MUNICIPAL SEWER DISTRICT NO. 1**
California

A Component Unit of the
City of Lakeport

Annual Financial Report
June 30, 2006

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....1

COMPONENT UNIT FINANCIAL STATEMENTS

Statement of Net Assets.....2
Statement of Revenues, Expenses and Changes in Net Assets.....3
Statement of Cash Flows.....4-5
Notes to Financial Statements.....6-11

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
City of Lakeport Municipal Sewer District No. 1
Lakeport, California

We have audited the accompanying basic financial statements of the City of Lakeport Municipal Sewer District No. 1 (the "District"), a component unit of the City of Lakeport, California, as of and for the year ended June 30, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District has not presented management's discussion and analysis that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Lakeport Municipal Sewer District No. 1, as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Nicholson & Olson
Certified Public Accountants
Roseville, California
July 27, 2007

**NICHOLSON
&
OLSON**

LIMITED LIABILITY
CERTIFIED PUBLIC ACCOUNTANTS

729 Sunrise Avenue

Roseville, California

(9)

COMPONENT UNIT FINANCIAL STATEMENTS

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Statement of Net Assets
June 30, 2006

ASSETS

Cash and investments	\$ 1,452,426
Receivables	207,516
Inventory	40,100
Capital assets, net	<u>13,881,085</u>
Total Assets	<u>15,581,127</u>

LIABILITIES

Accounts payable	11,994
Accrued payroll and benefits	17,638
Interest payable	55,375
Long-term liabilities:	
Due within one year	96,000
Due in more than one year	<u>4,601,745</u>
Total Liabilities	<u>4,782,752</u>

NET ASSETS

Investment in capital assets, net of related debt	9,183,340
Unrestricted	<u>1,615,035</u>
Total Net Assets	<u>\$ 10,798,375</u>

See accompanying notes to financial statements

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2006

OPERATING REVENUES	
Charges for services	\$ 1,370,472
Other income	<u>34,842</u>
Total Operating Revenue	<u>1,405,314</u>
OPERATING EXPENSES	
Salaries and benefits	654,170
Utility costs	168,476
Materials, supplies and services	666,038
Travel and training	3,949
Property taxes and assessments	12,962
Depreciation	<u>721,584</u>
Total Operating Expenses	<u>2,227,179</u>
 Operating Income (Loss)	 <u>(821,865)</u>
NONOPERATING REVENUES (EXPENSES)	
Assessments	405,678
Use of money and property	63,894
Interest expense	<u>(231,141)</u>
Total Nonoperating Revenues (Expenses)	<u>238,431</u>
 CHANGE IN NET ASSETS	 <u>(583,434)</u>
 NET ASSETS - BEGINNING OF YEAR	 <u>11,381,809</u>
 NET ASSETS - END OF YEAR	 <u>\$ 10,798,375</u>

See accompanying notes to financial statements

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Statement of Cash Flows
Year Ended June 30, 2006

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,461,972
Payments to suppliers	(866,115)
Payments to employees	<u>(644,728)</u>
Net Cash Provided (Used) by Operating Activities	<u>(48,871)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property tax assessments	<u>405,678</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>405,678</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on capital debt	(95,000)
Acquisition/purchase of capital assets	(48,850)
Interest paid on capital debt	<u>(269,513)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(413,363)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>63,894</u>
Net Cash Provided (Used) by Investing Activities	<u>63,894</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 7,338
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>1,445,088</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 1,452,426</u>

See accompanying notes to financial statements

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Statement of Cash Flows (Continued)
Year Ended June 30, 2006

Page 2 of 2

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$ (821,865)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation, a noncash expense	721,584
Changes in assets and liabilities:	
Receivables	56,658
Accounts payable	(14,690)
Salaries and benefits payable	17,638
Compensated absences	<u>(8,196)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (48,871)</u>

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Notes to Financial Statements
June 30, 2006

The notes to the financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the District as follows:

- Note 1 - Defining the Financial Reporting Entity
- Note 2 - Summary of Significant Accounting Policies
- Note 3 - Stewardship, Compliance and Accountability
- Note 4 - Cash and Investments
- Note 5 - Inventory
- Note 6 - Capital Assets
- Note 7 - Long-term Obligations
- Note 8 - Risk Management

See accompanying notes to financial statements

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Notes to Financial Statements
June 30, 2006

Note 1 - Defining the Financial Reporting Entity

City of Lakeport Municipal Sewer District No. 1 (the "District"), is a separate legal entity subject to oversight by the City of Lakeport (the "Council"). As the primary governing unit of the District, the Council exercises significant financial and management control over the District. Therefore, the District is also a component unit of the City of Lakeport (the "City"). In addition to presenting these financial statements of the District, the financial data of this component unit has also been combined with the City's annual financial report for the fiscal year ended June 30, 2006.

The District's component unit financial statements include the operations of all organizations for which the District's Board of Directors exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Based on the aforementioned oversight criteria, there are no component units of the District in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

A. Basis of Presentation

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB Statement No. 34 is effective in three phases based on the public institution's total annual revenues in the fiscal year ending after June 15, 1999. The District adopted the provisions of this statement along with GASB Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus (an amendment to GASB Statements No. 21 and No. 34), as of July 1, 2003. In June 2001, GASB issued Statement No. 38, Certain Financial Statement Note Disclosures, to reevaluate certain existing disclosure requirements in the context of reporting model statement No. 34. The District adopted the provisions of Statement No. 38 as of July 1, 2003.

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

The Financial Statement presentation, required by GASB 34, 37, and No. 38 provides a comprehensive, entity-wide perspective of the District's assets, liabilities, and replaces the fund-group perspective previously required. The District now follows the "primary government's governmental activities" reporting requirements of GASB No. 34 that provides a comprehensive one-line look at the District's financial activities.

B. Fund Accounting

The accounting records of the District are organized on the basis of an enterprise fund.

Enterprise Fund - The enterprise fund is used to account for the District's sewer operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District's Board of Directors is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The component unit financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

D. Budgetary Accounting

The Lakeport City Council, in its capacity as members of the Board, adopts a budget for the District annually, effective each July 1, for all District funds. The Board may amend the budget by resolution during the fiscal year. Budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America.

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Notes to Financial Statements
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (concluded)

E. Property and Equipment

Property and equipment acquired since July 1, 1979, are stated at historical cost. The historical cost of fixed assets acquired prior to that time, are not included in these financial statements. Depreciation is computed using the straight-line method based on estimated useful lives of 4 to 40 years. The District's capitalization policy is to capitalize all fixed asset purchases over \$500. Donated fixed assets are valued at fair value at the date of donation.

F. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 3 - Stewardship, Compliance and Accountability

Management is not aware of any material violations of finance-related legal or contractual provisions in any of the funds of the District.

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Notes to Financial Statements
June 30, 2006

Note 4 - Cash and Investments

A. Authorized Investments

Under the provisions of the District's investment policy, the District may invest or deposit in the following types of investments:

- Local Agency Investment Fund (State Pool) Deposits
- Certificates of Deposits placed with commercial banks and/or Savings and Loan associations
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Securities of the U. S. Government or its Agencies
- Commercial Paper

B. Pooled Deposits

The District's cash accounts are included in a cash pool maintained by the City of Lakeport that is used by all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures and note agreements, and for funds in its deferred compensation plan. At June 30, 2006, the City had the following accounts in the pool:

- Bank checking accounts collateralized with securities equal to at least 110% of the deposit balance and held by the bank's agent in the bank's name. Interest is deposited into the account monthly.
- State of California Local Agency Investment Fund ("LAIF"). Interest is deposited into the LAIF account quarterly.

Interest income earned on pooled cash and investments is allocated to the various funds based on the average cash balances held by each fund during the year.

During the year ended June 30, 2006 the District held no investments which are required to be categorized by risk.

Note 5 - Inventory

Inventory consists of expendable supplies held for consumption and are recorded as expenses when consumed.

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Notes to Financial Statements
June 30, 2006

Note 6 - Capital Assets

A summary of the changes in capital assets follows:

	July 1, 2005	Additions	(Dispositions)	June 30, 2006
Land	\$ 1,735,233	\$ -	\$ -	\$ 1,735,233
Buildings, improvements and infrastructure	19,021,186	-	-	19,021,186
Equipment	400,789	48,850	-	449,639
	21,157,188	-	-	21,206,038
Less depreciation	(6,603,369)	(721,584)	-	(7,324,953)
	<u>\$ 14,553,819</u>	<u>\$ (672,734)</u>	<u>\$ -</u>	<u>\$ 13,881,085</u>

Note 7 - Long-term Obligations

Changes in Long-term Obligations comprise the following:

	July 1, 2005	Increases	Decreases	June 30, 2006	Due within One Year
Tax assessment bonds	\$ 4,510,000	\$ -	\$ 80,000	\$ 4,430,000	\$ 80,000
Sewer revenue bonds	269,000	-	15,000	254,000	16,000
Total bonded debt	4,779,000	-	95,000	4,687,000	96,000
Compensated absences	21,941	-	8,196	13,745	-
	<u>\$ 4,800,941</u>	<u>\$ -</u>	<u>\$ 103,196</u>	<u>\$ 4,697,745</u>	<u>\$ 96,000</u>

The following is a description of the long-term bonded debt issues:

Sewer District Improvement Bonds

Series 1993-1, USDA Rural Development, total issue \$5,196,270. Annual principal and interest payments of approximately \$115,000, interest payable semi-annually at 5%, due March 1 and September 1 each year, secured by Municipal Sewer District No. 1 tax revenues from the South Assessment District 91-1 area, maturing 2032.

\$ 4,430,000

Sewer Revenue Bonds

1978 Series A, USDA Rural Development, total issue \$482,000. Annual principal and interest payments of approximately \$30,000, interest payable semi-annually at 5%, due January 1 and July 1 each year, secured by Municipal Sewer District No. 1 revenues, maturing in 2018.

\$ 254,000

CITY OF LAKEPORT MUNICIPAL SEWER DISTRICT NO. 1
A component unit of the City of Lakeport
Notes to Financial Statements
June 30, 2006

Note 7 - Long-term Obligations (continued)

The annual requirements to amortize the outstanding long-term debt as of June 30, 2006 are as follows:

Year Ending June 30,	Principal	Interest
2007	\$ 96,000	\$ 232,200
2008	101,000	227,275
2009	108,000	222,100
2010	113,000	216,575
2011	119,000	210,800
2012-2016	688,000	956,725
2017-2021	789,000	767,250
2022-2026	935,000	554,875
2027-2031	1,180,000	291,750
2032-2033	555,000	28,125
	<u>\$ 4,684,000</u>	<u>\$ 3,707,675</u>

Note 8 - Risk Management

The District is exposed to various risks of loss related to torts: theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Lakeport, which the District is a component unit of, is a member of the Redwood Empire Municipal Insurance Fund (REMIF), a public entity risk pool currently operating as a common risk management and insurance program for 16 member cities. The City of Lakeport pays an annual premium to REMIF for its workers' compensation, general liability and property damage coverage.

At June 30, 2006, the District had no liability or reserve for purposes of funding the future claims liabilities.

APPENDIX B

INFORMATION REGARDING PROGRAM PARTICIPANTS

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CITY OF ANDERSON

General

The City of Anderson (the "City") was incorporated in 1956 as a general law city. The City is located on the west bank of the Sacramento River in southern Shasta County, in northern California (the "County"). The City is located ten miles south of Redding, 150 miles north of Sacramento, and approximately 200 miles north of San Francisco along Interstate 5. The City operates under a council-manager form of government.

The City encompasses approximately 4,323 acres. As of January 1, 2007, the City had an estimated population of 10,594 and as of fiscal year 2006-07, has an assessed valuation of \$578,096,250. Historically, the economy in and around the City was largely comprised of lumber and wood products businesses; however, in recent years numerous local jobs have been created in retail and tourism businesses, and City and County policies have stimulated the addition of non-timber industrial and manufacturing businesses to the local economy. See "Economic and Demographic Information for the City of Anderson and the County of Shasta" herein.

Governance and Management

The City is governed by a five-member city council (the "Council"). Council members serve four-year staggered terms, with alternating slates of two or three council members elected every two years. A Mayor and Vice Mayor are selected by the Council from among its members. The Council is responsible for passing ordinances, adopting the budget and appointing committees, among others. The current city council members and the expiration dates of their terms of office are set forth below.

<u>Council Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Keith Webster	Mayor	November 2010
Butch Schaefer	Vice Mayor	November 2010
Phil Burnett	Council Member	November 2008
Norma Cornick	Council Member	November 2008
Melissa Hunt	Council Member	November 2008

The City Manager of the City is Scott Morgan. Mr. Morgan has been with the City for over nine years and has 28 years of experience in city administration. Financial management of the City is provided by Linda Watkins-Gallino, the City's Finance Director. Ms. Watkins-Gallino has been with the City for 13 years and has 25 years of experience in financial management.

Management of the City's wastewater system (the "Wastewater System") is provided by Robert Berry, Wastewater Division Manager and Chief Plant Operator. Mr. Berry has been with the City for 8 years as the manager of the wastewater system and has over 34 years of experience with treatment plant operations and management.

Wastewater System

The City's Wastewater System is comprised of wastewater collection facilities that serve portions of the incorporated area of the City and certain other areas. See "Service Area and Customers," below. The collection system includes five wastewater pump stations and approximately 42 miles of wastewater collection lines. These flows are transported through a series of pumped force mains and gravity lines ranging from 6" to 36" in diameter. The sewage treatment system consists of one treatment plant with appropriate holding ponds located near the Sacramento River on the eastern edge of the city limits.

The wastewater treatment plant and processing system are designed to and can process up to 6 million gallons per day of sewage from the collection system on peak flow days. Maximum flow from the collection system is 9 million gallons per day; the remaining 3 million gallons per day are held in one emergency overflow pond. Average dry weather flow from the collection system and through the treatment plant is 2 million gallons per day. The treatment plant and collection system are fully compliant with all state and federal permitting authorities. Additional emergency storage of 3 mgd will be provided by the Project. See "Plan of Finance" below.

Plan of Finance

The City plans to apply its share of the CSCDA Series 2007A Revenue Bond proceeds to finance the construction of additional emergency storage capacity of an additional 3 million gallons, which may include the acquisition of land for the pond and surrounding buffer areas, and an inflow and infiltration reduction project to reduce rainwater intrusion into the System (collectively, the "Project").

Service Area and Customers

The Wastewater System serves an area of approximately 5 square miles (75% of the City area) and an estimated population of 10,000 persons (95% of City residents).

The Wastewater System has 2,893 connections as of June 30, 2006. The table below shows the number of wastewater customers served by the City by connection and broken down by classification of user for fiscal years ending June 30, 2003 through 2007.

**City of Anderson
Wastewater System Connections
by Classification of User
As of June 30**

<u>User Type</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007⁽¹⁾</u>
Single Family Residential	2,469	2,542	2,600	2,509	2,525
Multiple Family Residential ⁽²⁾				128	129
Commercial/Institutional	233	237	237	240	241
Other (e.g. governmental agencies)	<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>
Total	2,718	2,795	2,853	2,893	2,911

⁽¹⁾ Estimated.

⁽²⁾ Data included in Single Family Residential for 2003-2005.

Source: City of Anderson.

The table below shows the wastewater service charge revenues by class of user for fiscal year 2006-07.

**City of Anderson
Wastewater System
Wastewater Service Charge Revenues
by Class of User
Fiscal Year 2006-07**

<u>User Class</u>	<u>Wastewater Service Charge Revenue</u>	<u>Percentage of Wastewater Service Charge Revenue</u>
Single Family Residential	\$801,550	59%
Multiple Family Residential	350,866	26
Commercial/Institutional	189,538	14
Governmental Agencies	<u>19,875</u>	<u>1</u>
Total	\$1,361,829	100%

Source: City of Anderson.

Largest Users. The table below shows the largest users of the Wastewater System based on wastewater service charge revenues for the fiscal year 2006-07.

**City of Anderson
Wastewater System
Ten Largest Users
Fiscal Year 2006-07**

<u>User</u>	<u>Type of Business</u>	<u>Wastewater Service Charge Revenue*</u>	<u>Percentage of Total Wastewater Service Charge Revenue*</u>
Manzanita Hills Phase I Anderson Senior Apartments - Regency	Apartments	\$21,570	1.58%
Manzanita Hills Phase II Three Seasons – Gateway Apartments	Apartments	19,943	1.46
River Garden Apartments	Apartments	19,387	1.42
Seasons at Los Robles	Apartments	18,740	1.38
River Garden Apartments	Apartments	17,574	1.29
Shady Lane Investors	Apartments	14,569	1.07
Marx, Charles	Apartments	12,766	0.94
River Park Mobile Estates	<u>Mobile Home Park</u>	11,956	0.88
	Total	<u>11,641</u>	<u>0.84</u>
		\$159,635	11.71%

*Numbers and percentages reflect rounding.
Source: City of Anderson.

Wastewater Rates

The City has the power pursuant to applicable law to establish rates and charges to operate the Wastewater System. Its charges are established by its Council and are not subject to review or approval by any other agency. The City principally relies on charges for services, connection fees and impact fees to fund its wastewater system operations.

Resolution No. 04-33 of the City, adopted on April 20, 2004, established the present service charges which have been in effect since July 1, 2004. On May 1, 2007, the Council adopted Resolution No. 07-34 which increased monthly sewer user charges by 2% to \$18.08/month plus \$1.19 per hcf. of water consumed effective July 1, 2007, and by 2% to \$18.44/month plus \$1.21 per hcf. of water consumed effective July 1, 2008. The City conducted Proposition 218 notice and protest procedures with respect to these service charges. See “Constitutional Limitations on Appropriations and Charges — Proposition 218” in the forepart of this Official Statement.

Connection Fees. The City collects a fee for each new connection to its maintained sewer line. The fee represents a reimbursement of the cost of the connection. Connection fees are currently calculated by a formula approved and adopted by City Council. The connection fee rates pursuant to Ordinance 739 are shown below.

**City of Anderson
Connection Fees as of August 1, 2006**

<u>Connection Type</u>	<u>Southern Area</u>	<u>All Other Areas</u>
Single Family Residential	\$3,290	\$2,315
Duplex per unit	\$2,815	\$1,980
Multifamily per unit	\$2,815	\$1,980
Mobile Home Park pad	\$2,815	\$1,980
All Others	\$3,290 per Household Equivalent	\$2,140 per Household Equivalent

Rate Comparisons. The table below shows comparative wastewater monthly service charges for residential customers in surrounding areas.

**City of Anderson
Comparative Wastewater System Service Charges in Surrounding Areas
as of May 1, 2007**

<u>Service Provider</u>	<u>Monthly Service Charge⁽¹⁾</u>	<u>Amount Paid for Average 800 cu. Ft. Winter Water Use</u>
Red Bluff (City)	\$25.00	\$25.00
Corning (City)	\$25.72	\$25.72
Anderson (City)	\$18.08 plus \$1.19 per hcf avg. water consumed in previous December, January and February ⁽²⁾	\$27.60
Shasta Lake (City)	\$31.00	\$31.00
Redding (City)	\$33.75	\$33.75

⁽¹⁾ Fixed rate except as noted.

⁽²⁾ Effective July 1, 2007.

Source: City of Anderson.

Collections. Sewer service charges are billed on property tax billings. The charge appears as a separate item on the tax bill, and is collected at the same time and in the same manner as ordinary *ad valorem* property taxes, and is subject to the same penalties and the same procedure and sale in case of delinquency as provided for such taxes.

Payments are due on December 10 and April 10, in the same manner as ordinary *ad valorem* property taxes. The City receives these user fees from the County Tax Collector monthly throughout the year, with the largest payments received in January and May. The City has elected to use the "Teeter" method for acceptance of sewer user charges from the County.

Under this method, the City receives 100% of all assessments placed, regardless of delinquencies and, in exchange, the County retains all late fees and delinquent charges.

Permits

The City operates its Wastewater System under the discharge requirements issued to the City under National Pollutant Discharge Elimination System (NPDES) permit No. CA 0077704, issued by the California Regional Water Quality Control Board. The permit was issued September 1, 2001 and expired on July 1, 2006. The City submitted its renewal package November 2005 and, as is customary, operates under the authority of the existing permit until the renewal is issued. The renewal was uncontested and considered for approval at the December 6, 2007 meeting of the applicable Regional Water Quality Control Board. The City expects to receive its renewed permit in early 2008. The City is also subject to State Water Resources Control Board Order No. 2006-003 – Statewide General Waste Discharge Requirements for Sanitary Sewer Systems. The City is in compliance with its permits.

Existing Long-Term Obligations

The City uses lease purchase financing and Certificates of Participation, as well as trade debt instruments for its financing requirements. Currently, the City does not have any outstanding general obligation bonds. The City currently has the following existing long-term obligations relating to the wastewater system:

Riverside East Certificates of Participation. This obligation in the amount of \$232,570 was incurred on November 1, 2001, for the purpose of financing capital improvements to the Riverside East wastewater system. The obligation is paid by net wastewater revenues and is subordinate to other obligations of the City secured by net wastewater revenues and incurred prior to November 1, 2001. The obligation is in a senior position to the City's obligation with respect to the CSCDA Series 2007A Bonds.

As of June 30, 2007, \$221,500 remains outstanding. The balance is payable in annual installments of \$2,070 to \$12,500 through September 2, 2041, at an interest rate of 4.75%, payable on each March 2 and September 2 until maturity.

Department of Commerce Financing Lease. This obligation of \$250,000 was issued on 1990 for the purposes of financing public improvements in connection with extending sewer and water lines to the Factory Outlet Shopping Center. This obligation is payable from the City's legally available funds and are not secured by a pledge of wastewater revenues. Historically, the City has paid 10% of the lease payments from wastewater system revenues. The obligation is currently outstanding at \$86,572, and is payable in annual installments of \$9,038 through January 11, 2011, and bears an interest rate of 3.00%.

Refunding Lease – City National Bank. This lease in the amount of \$2,370,700 was issued in October 1, 1997, for the purpose of refunding the 1990 Water Systems Improvement Certificates of Participation and a portion of the 1986 Certificates of Participation. As of June 30, 2007, \$812,700 remains outstanding, with the balance payable in annual installments of \$90,000 to \$210,000 through December 1, 2010. The obligation bears an interest rate of 5.45%, payable semiannually every June 1 and December 1. The lease is payable from the City's legally

available funds and are not secured by a pledge of wastewater revenues. Historically, the City has 46.90% of payments from wastewater system revenues.

Riverside East Limited Obligation Improvement Bonds. Bonds in the par amount of \$2,076,000 were issued November 14, 2001, for the purpose of installation and construction of certain sewer and storm drain improvements in the Riverside Avenue Assessment District. The bonds are payable primarily from property tax assessments. The Assessment District encompasses 252 assessable parcels, of which 220 are currently developed as residences, 31 are undeveloped, and one is under development as a hotel. The total assessed value of the property in the assessment district for fiscal year 2007-08 was \$59,532,878.

Similar to user charges, the City has elected to participate in the "Teeter" method of tax apportionment, and receives 100% of the levied assessments, regardless of actual collections by the County Tax Collector. The outstanding principal amount of the bonds as of June 30, 2007 is \$1,966,000. The balance is due in annual installments of \$39,358 to \$106,000 through September 2, 2041. The bonds bear interest at a rate of 4.375%, payable on each March 2 and September 2 until maturity.

Under a Letter of Conditions with the United States Department of Agriculture Rural Utilities Service, as purchaser of such bonds, the City has pledged Wastewater System revenues to any deficiency in collected assessments, subject to reimbursement with interest by the reinstated property owners or by foreclosure, as applicable. As of September 1, 2007, no Wastewater System funds have been used for such purpose, and the current balance of assessment moneys on reserve in the debt service fund is approximately \$289,000 (of which \$125,000 represents the minimum required reserve amount), which is approximately equal to three years of the City's payment obligations on such bonds.

Planned Capital Improvements

In addition to the improvements to be financed with the CSCDA Series 2007A Revenue Bonds, the City estimates approximately \$3,100,000 in capital improvements to the wastewater system over the next 5 years. The City plans to fund these improvements from current and future connection and user fees and Community Facilities District bond proceeds. In addition, the City is in the early stages of planning a long-term treatment plant expansion project to accommodate current and anticipated growth, consistent with the City's general plan and sewer master plan. Construction of the first phase of this project is anticipated to be completed in 2013 at an estimated cost of \$2 million.

Financial Information

A copy of the most recent audited financial statements of the City prepared by the City and audited by Nystrom & Company LLP, Certified Public Accountants, Redding, California (the "Auditor") is included in Appendix A hereto (the "Financial Statements"). The letter of the Auditor concludes that the audited financial statements present fairly, in all material respects, the financial position of the City as of June 30, 2006 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United

States of America. The Financial Statements should be read in their entirety. The Auditor has not reviewed or audited this Official Statement.

Historic Operating Results and Debt Service Coverage. The following table is a summary of consolidated operating results of the enterprise funds related to the Wastewater System for the fiscal years ending June 30, 2004 through 2006. The results have been derived from the audited financial statements of the City and are qualified in their entirety by reference to such statements, including the notes thereto. All results exclude certain non-cash items and include certain other adjustments. The Auditor has not reviewed or audited the summary operating results or any other portion of this Official Statement.

**City of Anderson Wastewater System
Summary of Historic Operating Results
Fiscal Years Ended June 30**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues			
Service Charges	\$1,176,671	\$1,209,204	\$1,286,502
Connection Fees	218,498	323,438	206,465
Interest Earnings	20,426	28,039	53,751
Other	-	141	502
Assessments Collected	<u>105,347</u>	<u>117,145</u>	<u>110,473</u>
Total Revenues	\$1,520,942	\$1,677,967	\$1,657,693
Operating Expenses ⁽¹⁾	\$ 970,551	\$1,063,530	\$1,147,616
Wastewater System Net Revenues	\$ 550,391	\$ 614,437	\$ 510,077
Senior Debt Service ⁽²⁾	\$ 12,901	\$ 12,806	\$ 13,199
Parity Debt Service			
Riverside East Assessment Bonds ⁽³⁾	<u>111,068</u>	<u>111,062</u>	<u>111,012</u>
Total Net Debt Service	\$123,969	\$123,868	\$124,211
Total Debt Service Coverage	4.44	4.96	4.11
Available Revenues	\$426,422	\$490,569	\$385,866
Lease Obligations Payable from Wastewater System ⁽⁴⁾			
Dept. of Commerce Financing Lease	\$ 1,808	\$ 1,808	\$ 1,808
Refunding Lease	<u>120,494</u>	<u>119,240</u>	<u>118,719</u>
	\$122,302	\$121,048	\$120,527

⁽¹⁾ Excludes debt service, depreciation and capital expenditures.

⁽²⁾ Anderson Public Financing Authority Riverside East Certificates of Participation. See "Existing Long Term Obligations—Riverside East Certificates of Participation."

⁽³⁾ Riverside East Limited Obligation Improvement Bonds, which are secured by and payable from assessments, and from wastewater net revenues only in the event of a deficiency in assessments. See "Existing Long Term Obligations — Riverside East Certificates of Participation."

⁽⁴⁾ Lease obligations are not secured by pledge of wastewater revenues. The City has historically paid a portion of the lease payments from wastewater revenues. See "Existing Long Term Obligations—Department of Commerce Finance Lease" and "—Refunding Lease - City National Bank."

Source: City of Anderson.

Projected Operating Results and Debt Service Coverage. The City's projected consolidated operating results for the enterprise funds related to the System for the fiscal years ending June 30, 2007 through 2010 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during

the projection period will vary from those presented in the forecast and such variations may be material.

**City of Anderson Wastewater System
Projected Operating Results
Fiscal Years Ended June 30**

	<u>2007⁽¹⁾</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues				
Service Charges ⁽²⁾	\$1,291,732	\$1,389,200	\$1,417,000	\$1,445,300
Connection Fees ⁽²⁾	356,000	184,000	187,000	186,000
Interest Earnings	35,400	59,800	55,100	55,000
Assessments Collected	<u>111,049</u>	<u>111,000</u>	<u>111,000</u>	<u>111,000</u>
Total Revenues	\$1,794,181	\$1,744,000	\$1,770,100	\$1,797,300
Operating Expenses ⁽³⁾	\$1,072,311	\$1,119,626	\$1,207,630	\$1,252,000
Wastewater System Net Revenues	\$721,870	\$624,374	\$562,470	\$545,300
Senior Debt Service ⁽⁴⁾	\$13,081	\$12,962	\$ 12,843	\$ 13,213
Parity Debt Service				
Riverside East Assessment Bonds ⁽⁵⁾	\$111,013	\$110,919	\$110,781	\$110,600
CSCDA 2007A Revenue Bonds	<u>-</u>	<u>-</u>	<u>121,747</u>	<u>103,170</u>
Total Debt Service	\$124,094	\$123,881	\$245,371	\$226,983
Total Debt Service Coverage	5.81	5.04	2.29	2.40
Other Lease Obligations Payable from Wastewater System Revenues ⁽⁶⁾	\$108,843	\$109,742	\$109,878	\$108,227

⁽¹⁾ Derived from unaudited actual results for Fiscal Year 2006-07.

⁽²⁾ Rates for monthly sewer user charges will be raised by 2.0%, effective July 1, 2007, and another 2.0% effective July 1, 2008. See "Wastewater Rates" herein.

⁽³⁾ Excludes depreciation, capital expenditures and debt service. Assumes 5% annual increase in operating expenses for Fiscal Years 2007-08, 2008-09 and 2009-10.

⁽⁴⁾ Anderson Public Financing Authority Riverside East Certificates of Participation. See "Existing Long Term Obligations — Riverside East Certificates of Participation."

⁽⁵⁾ Riverside East Limited Obligation Improvement Bonds are secured and payable from assessments, and from wastewater net revenues only in the event of a deficiency in assessments. See "Existing Long Term Obligations — Riverside East Limited Obligation Improvement Bonds", above.

⁽⁶⁾ Lease obligations are not secured by pledge of wastewater revenues. The City has historically paid a portion of the lease payments from wastewater revenues. See "Existing Long Term Obligations—Department of Commerce Finance Lease" and "—Refunding Lease - City National Bank." See "Existing Long Term Obligations—Department of Commerce Finance Lease" and "—Refunding Lease - City National Bank."

Source: City of Anderson.

Debt Service Schedule

The following table shows the debt service requirements related to the City's Wastewater System for the Bonds, parity bonds and senior debt.

CSCDA Series 2007A Bonds

Annual Period Ending October 1	Senior Debt ⁽¹⁾	Parity Debt ⁽²⁾	Principal	Interest	Annual Total
2008	\$12,902.50	\$110,918.75	\$35,000.00	\$52,312.11	\$ 87,312.11
2009	13,283.76	110,781.25	35,000.00	68,870.00	103,870.00
2010	13,141.26	110,600.00	40,000.00	67,470.00	107,470.00
2011	12,998.76	110,375.00	40,000.00	65,870.00	105,870.00
2012	12,096.26	111,106.25	40,000.00	64,270.00	104,270.00
2013	13,190.00	110,750.00	45,000.00	62,670.00	107,670.00
2014	13,023.76	110,350.00	45,000.00	60,870.00	105,870.00
2015	13,357.50	110,906.25	45,000.00	59,070.00	104,070.00
2016	13,167.50	110,375.00	50,000.00	57,270.00	107,270.00
2017	12,997.50	110,800.00	50,000.00	55,270.00	105,270.00
2018	13,287.50	111,137.50	50,000.00	53,270.00	103,270.00
2019	13,073.76	110,387.50	55,000.00	51,270.00	106,270.00
2020	12,860.00	110,593.75	55,000.00	49,070.00	104,070.00
2021	13,146.26	110,712.50	60,000.00	46,595.00	106,595.00
2022	12,908.76	110,743.75	60,000.00	43,895.00	103,895.00
2023	13,171.26	110,687.50	65,000.00	41,195.00	106,195.00
2024	12,910.00	110,543.75	70,000.00	38,270.00	108,270.00
2025	13,148.76	111,312.50	70,000.00	35,120.00	105,120.00
2026	12,863.76	110,950.00	75,000.00	31,970.00	106,970.00
2027	13,078.76	110,500.00	75,000.00	28,595.00	103,595.00
2028	13,270.00	110,962.50	80,000.00	25,220.00	105,220.00
2029	12,937.50	111,293.75	85,000.00	21,620.00	106,620.00
2030	13,105.00	110,493.75	90,000.00	17,625.00	107,625.00
2031	13,248.76	110,606.25	90,000.00	13,395.00	103,395.00
2032	12,868.76	110,587.50	95,000.00	9,165.00	104,165.00
2033	12,988.76	110,437.50	100,000.00	4,700.00	104,700.00
2034	13,085.00	111,156.25	-	-	-
2035	13,157.50	110,700.00	-	-	-
2036	13,206.26	111,112.50	-	-	-
2037	13,231.26	111,350.00	-	-	-
2038	13,232.50	110,412.50	-	-	-
2039	13,210.00	110,343.75	-	-	-
2040	13,163.76	111,100.00	-	-	-
2041	13,093.76	110,637.50	-	-	-
Total	\$444,406.44	\$3,765,725.00	\$1,600,000.00	\$1,124,917.11	\$2,724,917.11

⁽¹⁾ Anderson Public Financing Authority Riverside East Certificates of Participation.

⁽²⁾ Limited Obligation Improvement Bonds (Riverside Avenue East Assessment District).

Litigation

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, threatened that may result in any material adverse change relating to the finances or operations of the City or the System.

Seismic Risks

The City is located in or near a seismically active region of California. The Wastewater System and future planned capital improvements to the Wastewater System have been or will be designed to meet all applicable seismic standards. However, there can be no assurance that seismic activity will not significantly damage the Wastewater System or adversely affect the local economy.

Economic and Demographic Information for the City of Anderson and the County of Shasta

Population. The following tables show the rate of growth for the City and County, respectively, as of January 1, 2003 through January 1, 2007.

City of Anderson Population as of January 1⁽¹⁾

2003	9,614
2004	10,081
2005	10,432
2006	10,580
2007	10,594

⁽¹⁾ 2000 Demographic Research Unit ("DRU") Benchmark.
Source: State of California, Department of Finance.

Shasta County Population as of January 1⁽¹⁾

2003	173,192
2004	175,864
2005	178,038
2006	179,835
2007	181,401

⁽¹⁾ 2000 DRU Benchmark.
Source: State of California, Department of Finance.

Employment. The table below lists figures for the civilian labor force and comparative unemployment rates for 2003 through 2007.

**Shasta County
Civilian Labor Force, Employment and Unemployment⁽¹⁾
(Annual Average)**

<u>Annual Average</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007*</u>
Labor Force	83,100	83,200	82,700	83,700	84,100
Employment	76,800	76,900	76,700	78,200	77,800
Unemployment	6,300	6,300	6,000	5,500	6,300
Unemployment Rate	7.6	7.6	7.3	6.6	7.4

⁽¹⁾ Not seasonally adjusted.

* Preliminary data as of April 2007.

Source: State of California, Employment Development Department.

Personal Income. The following table sets forth the per capita personal income in the County, the State and the nation for the years 2001 through 2005.

**Shasta County
Personal Income
2001 through 2005**

<u>Year and Area</u>	<u>Per Capita Income</u>
<u>2001</u>	
Shasta County	\$25,688
California	32,859
United States	30,562
<u>2002</u>	
Shasta County	25,781
California	32,769
United States	30,795
<u>2003</u>	
Shasta County	26,456
California	33,469
United States	31,466
<u>2004</u>	
Shasta County	28,103
California	35,380
United States	33,090
<u>2005</u>	
Shasta County	29,104
California	36,936
United States	34,471

Source: US Department of Commerce, Bureau of Economic Analysis.

Assessed Valuation. The following table shows the assessed valuations for the City from fiscal years 2002-03 through 2006-07.

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2002-03	\$320,523,589	\$ 94,174	\$21,116,625	\$341,734,388
2003-04	352,067,701	107,547	20,780,958	372,956,206
2004-05	391,968,462	134,199	20,556,099	412,658,760
2005-06	450,017,582	125,175	23,067,289	473,210,046
2006-07	526,830,415	102,916	25,093,962	552,027,293

Source: California Municipal Statistics, Inc.

Major Employers. The following table shows the major employers in the City for the year 2006.

<u>Employer</u>	<u>Industry</u>	<u>Number Employed</u>	<u>Percentage of Total City Employment</u>
Wal-Mart Supercenter	Retail	416	10.1%
Anderson Union High School District	School District	175	4.3
Pre-Employ.com	Background Checking Service	145	3.5
Cascade Union Elementary School District	School District	137	3.3
Safeway	Supermarket	110	2.7
Oak River (Rehab Specialties) Inn.	Nursing Home	98	2.4
Voorwood Company	Manufacturing (Woodworking Machineries)	65	1.6
City of Anderson	Government	69	1.7
Dan Gamel RV Center	RV Dealership	56	1.4
Systems Plus	Manufacturing (Floor/Roof Trusses)	55	1.3
Newport Biosystems	Biotechnology	45	1.1
Round Table Pizza	Restaurant	38	0.9
Perkos Café	Restaurant	34	0.8
McDonald's	Restaurant	32	0.8%
	Total	1,475	35.9%

Source: City of Anderson.

The following table shows the major employers in the County of Shasta.

**Shasta County
Major Employers
(2007)
(In Alphabetical Order)**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Aggregate Products	Redding	Asphalt & Asphalt Products
Ave's Audio Visual Equipment	Redding	Audio-Visual Equipment-Renting & Leasing
Bridge Bay Resort & Marina	Redding	Marinas
Canyonwood Nursing & Rehab Ctr	Redding	Nursing & Convalescent Homes
Ch2m Hill Co	Redding	Engineers-Foundation
Clark Pest Control	Redding	Pest Control
Home Depot	Redding	Home Centers
Lassen Canyon Nursery Inc	Redding	Nurseries-Plants Trees & Etc-Wholesale
Mayers Memorial Hosp-Burney	Burney	Hospitals
Mayers Memorial Hospital	Fall River Mills	Hospitals
Mercy Medical Ctr	Redding	Hospitals
Mercy Medical Ctr Redding	Redding	Ambulance Service
Northern California Rehab Hosp	Redding	Rehabilitation Services
Oakdale Heights Management	Redding	Fuel Management
Redding GIS Div	Redding	Government Offices-City, Village & Twp
Shascade Community Svc	Redding	Social Service & Welfare Organizations
Shasta College	Redding	Schools-Universities & Colleges Academic
Shasta Community Health Ctr	Redding	Clinics
Shasta Head Start	Redding	Non-Profit Organizations
Shasta Healthcare	Redding	Nursing & Convalescent Homes
Shasta Regional Med Ctr	Redding	Hospitals
Transportation Dept	Redding	State Government-Transportation Programs
US Post Office	Redding	Post Offices
Victor Residential Ctr	Redding	Residential Care Homes
Win-River Casino Bingo	Redding	Bars

Source: 2007 America's Labor Market Information System (ALMIS) Employer Database.

CITY OF LAKEPORT

General

The City of Lakeport (the "City") was incorporated in 1888 as a general law city. The City is located on the west shore of Clear Lake and is the county seat of Lake County (the "County"), in northern California. The City is located approximately 115 miles north of San Francisco and 120 miles west of Sacramento. The City operates under a council-manager form of government.

The City encompasses approximately 2.7 square miles. As of January 1, 2007, the City had an estimated population of 5,100 and as of fiscal year 2006-07, has an assessed valuation of \$432,078.442. The City offers recreational activities such as boating, fishing and other water sports by virtue of its lakeside location. The local economy is supported in part by tourism related to these activities. See "Economic and Demographic Information for the City of Lakeport and the County of Lake" herein.

Governance and Management

The City is governed by a five-member city council (the "City Council"). City Council members serve four-year staggered terms, with alternating slates of two or three council members elected every two years. A Mayor and Mayor Pro Tem are selected by the City Council from among its members. The City Council is responsible for passing ordinances, adopting the budget and appointing committees, among others, and also serves as the governing body of the City's Municipal Sewer District No. 1 (the "Sewer District") which, among other responsibilities, sets rates and charges for the operation of the Sewer District. The current City Council members and the expiration dates of their terms of office are set forth below.

<u>Council Member</u>	<u>Title</u>	<u>Expiration of Term</u>
Buzz Bruns	Mayor	December 2008
Ronald Bertsch	Mayor Pro Tem	December 2008
Roy Parmentier	Council Member	December 2010
James Irwin	Council Member	December 2010
Robert Rumfelt	Council Member	December 2008

The City Manager of the City is Jerry Gillham. Mr. Gillham has been with the City beginning in Summer 2007 and has over 17 years of experience in city administration and management. Financial management of the City is provided by the Finance Director Janet Tavernier. Ms. Tavernier has been with the City for over 17 months and has over 26 years of accounting experience.

Management of the Sewer District is provided by Mark Brannigan, Utilities Superintendent. Mr. Brannigan has been with the City for over nine years as the Utilities Superintendent, for both the water and wastewater systems, and has over 23 years of experience with management of utility systems.

Sewer District

The City's Sewer District is comprised of wastewater collection facilities that serve the incorporated area of the City and certain other areas. The Sewer District facilities consist of approximately 60 miles of wastewater pipelines, eight pump stations and a treatment and disposal facility (the "City of Lakeport Treatment Facility"). As described below, the City provides treatment service to a portion of the County's wastewater customers at the City of Lakeport Treatment Facility. The City also contracts with the County to receive treatment from the County's treatment plant for the City's wastewater customers in the northern part of the City.

The treatment capacity of the Sewer District is 1 million gallons per day of average dry weather flow ("ADWF"). The actual peak flow/demand on the Sewer District is approximately 0.35 million gallons per day (ADWF). See "Permits and Regulatory Matters" below. Flows include wastewater from the County's wastewater customers located in the unincorporated southern portion of the County (the "South Service Area"). In the northern part of the City, customers of the City's Sewer District are treated at the County's Northwest Treatment Plant located at 1155 Whalen Way in the City (the "Northwest Treatment Plant"). See "Service Area and Customers" below.

Plan of Finance

The City plans to apply a portion of its share of the proceeds of the CSCDA Series 2007A Revenue Bonds (the "Bonds") to finance improvements to the System, including upgrading the disposal process to accommodate current wastewater flows, installation of a magnetic flow meter before the headworks facility for incoming raw wastewater measurements at the plant, and upgrading the treated irrigation wastewater pump station and pipeline to increase hydraulic capacity to the disposal fields (collectively, the "Project"). Such improvements are approximately 95% complete. The Project responds to a State cease and desist order that has suspended permit approvals of new development in the City. See "Permits and Regulatory Matters" below.

The City also plans to apply a portion of its share of the proceeds of the Bonds to refund, for debt service savings, \$482,000 City of Lakeport Municipal Sewer District No. 1 Sewer Revenue Bonds of 1978, Series A (as further described below, the "1978 Revenue Bonds") of which \$238,000 principal amount is outstanding.

Service Area and Customers

The service area of the Sewer District includes the incorporated area of the City. The service area covers an area of approximately 3 square miles and includes an estimated population of 5,100 persons. The Sewer District's customers in the northern part of the City (approximately 695 residential connections) receive treatment from the County's Northwest Treatment Plant (these connections are Sewer District customers and are billed by the City). The Sewer District also provides sewage collection and treatment to the County's South Service Area (approximately 440 residential connections) and the City bills the County for this service (these connections are County customers and are billed by the County; the County owns the collection facilities outside the City limits). Pursuant to an Agreement entered into in 1995 and with a

twenty-five year term, the City and the County bill each other quarterly for treatment based on flows allocable to their respective customers. In fiscal year 2006-07, the City paid approximately \$203,845.00 to the County under this Agreement and the County paid the City approximately \$89,745.35.

The Sewer District has 2,184 accounts (including 695 accounts that receive treatment from the County) as of June 30, 2007. The table below shows the number of wastewater customers by connection and broken down by classification of user for fiscal year ending June 30, 2007.

**City of Lakeport
Sewer District Connections
by Classification of User
as of June 30, 2007⁽¹⁾**

<u>User Type</u>	
Single Family Residence	1,606
Apartments	169
Commercial / School	408
South Service Area ⁽²⁾	1
Total	2,184

⁽¹⁾ Includes approximately 695 connections that receive treatment service from County.

⁽²⁾ Includes approximately 440 connections served by the County in the South Service Area and treated at the City's Treatment Facility.

Source: City of Lakeport.

The table below shows the wastewater service charge revenues by class of user for fiscal year 2006-07.

**City of Lakeport
Sewer District
Wastewater Service Charge Revenues
by Class of User
Fiscal Year 2006-07**

<u>User Class</u>	<u>Wastewater Service Charge Revenue</u>	<u>Percentage of Wastewater Service Charge Revenue</u>
Single Family Residences	\$ 369,458	29.58%
Apartments	31,880	2.55
Commercial	757,551	60.66
School	190	.02
County	89,745	7.19
Total	\$1,248,824	100% ⁽¹⁾

⁽¹⁾ Reflects rounding.

Source: City of Lakeport.

Largest Users. The table below shows the largest users of the Sewer District based on wastewater service charge revenues for the fiscal year 2006-07.

**City of Lakeport
Sewer District
Ten Largest Users
as of June 30, 2007**

<u>User</u>	<u>Type of Business</u>	<u>Wastewater Service Charge Revenue*</u>	<u>Percentage of Total Wastewater Service Charge Revenue*</u>
Arton, Inc	Mobile home park	\$ 3,066	.03144
Clear Lake Marina Mobile Park	Mobile home park	1,612	.01653
Kmart	Department store	1,269	.01302
TGJ Summit Development	Mobile home park	1,234	.01266
DaVita Inc.	Medical	1,078	.01106
Aqua Villa Mobile Home Park	Mobile home park	980	.01005
49 th Dist Fair	Fairgrounds	941	.00965
Lakeport Skilled Nursing Center	Nursing home	884	.00907
Lakeview Housing, Inc	Apartments	877	.00899
Lakeport Unified School District	Education	73	.00075
Total		\$12,014	12.322%

* Billing numbers and percentages reflect rounding.
Source: City of Lakeport.

Wastewater Rates

The City has the power pursuant to applicable law to establish rates and charges to operate the Sewer District. Its charges are established by its Council and are not subject to review or approval by any other agency. The City principally relies on charges for services, connection fees and impact fees.

Resolution No. 2308, adopted on November 6, 2007, established the present sewer service charges which become effective on November 9, 2007. Service charges were raised 25% effective November 9, 2007 and 5.55% effective July 1, 2008 (these increases in rates are not effective for customers in the northern part of the City receiving treatment from the County's Northwest Treatment Plant). The City conducted Proposition 218 notice and protest procedures with respect to these new charges that concluded with a hearing on November 6, 2007. See "Constitutional Limitations on Appropriations and Charges — Proposition 218" in the forepart of this Official Statement.

Service Charges. The City Council, as the governing body of the Sewer District, generally sets Sewer District service charges based upon the following categories of users: single-family residential, apartments, commercial, school and County. The table below provides the current and adopted future sewer service charges for residential and commercial customers.

**City of Lakeport
Monthly Sewer Service Charges
Commercial & Residential Customers
(Fiscal Years Ending June 30)⁽¹⁾**

<u>Category of User</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Single Family Residence	\$31.61	\$39.57	\$41.77	\$42.93
Apartments	23.72	30.50	32.18	33.08
Commercial	31.61	39.57	41.77	42.93
Commercial Volume Charge (per cf over 8hcf)	3.18	4.52	4.79	4.92
School	15.81	16.92	17.80	18.30

⁽¹⁾ Increases in rates are not effective for customers in the northern part of the City receiving treatment from the County's Northwest Treatment Plant.

Source: City of Lakeport Wastewater Rate Study

Expansion Fees. The City collects an expansion fee for each new connection to its maintained sewer line. Such fee represents a reimbursement of the cost of the connection. Expansion fees are currently calculated by a formula approved and adopted by City Council. Within the South Service Area (see "Sewer District" and "Service Area and Customers" above), the expansion fee for 2007 is \$5,000 per Residential Unit Equivalent ("RUE"). On January 1, 2008, the fee will increase to \$7,500/RUE, and on January 1, 2009, the fee will increase to \$10,000/RUE, pursuant to Ordinance No. 2271. See "Permits and Regulatory Matters" below. The City's customers in the northern portion of the City also pay expansion fees for new connections that are transferred to the County (which provides treatment for these customers). These fees are currently \$5,706. These fees include \$4,366 that goes to the County and \$1,340 due to the City. The City fee will be increased to \$2,010 in 2008 and \$2,680 in 2009.

Rate Comparisons. The table below shows comparative wastewater monthly service charges for residential customers in surrounding areas.

**City of Lakeport
Comparative Sewer District Service Charges in Surrounding Areas
as of January 1, 2007**

<u>Service Provider</u>	<u>Monthly Single Family Residential Service Charge</u>	<u>Expansion Fee</u>
Kelseyville County Waterworks District #3 ⁽¹⁾	\$ 12.31	\$ 4,268
Middletown ⁽¹⁾	16.30	4,366
LACOSAN #1 ⁽¹⁾		
Clearlake	21.29	4,366
Clearlake Park	21.29	4,366
Lower Lake	21.29	4,366
LACOSAN #3 ⁽¹⁾		
North Lakeport	22.10	4,366
Upper Lake	22.10	4,366
Nice	22.10	4,366
Lucerne	22.10	4,366
Kono Tayee ⁽¹⁾	22.10	4,366
Paradise ⁽¹⁾	22.10	4,366
LACOSAN 9-1 & 9-3: ⁽¹⁾		
Lands End/South Lakeport	33.69	5,000
LACOSAN 9-2 ⁽¹⁾		
Corinthian Bay	20.00	4,268
Clearlake Oaks County W.D. - Area A	26.90	2,500
Clearlake Oaks County W.D. - Area B	28.25	3,250
City of Lakeport	31.61	5,000
Hidden Valley Lake Community Service District	41.00	100

(1) Lake County Special Districts.

Source: SWRCB-06-07 Survey and City of Lakeport.

Collections. Sewer service charges are billed by the City monthly together with water and solid waste. Payments are due monthly 20 days after mailing, between the 7th and 11th of the following month. There is a \$25 late fee for payment made after the due date. For those sewer customers with water service also, shutoff/late notices for nonpayment are sent out the day after the due date with payment due within 15 days. Shutoff notice door hangers are hung 48 hours before shutoff day. If shutoff occurs there is a \$30 fee, \$15 for disconnect and \$15 for reconnect. To reinstate water service, all required fees must be paid in full. For those sewer customers without water service, a notice listing delinquent sewer and/or solid waste fees will be sent to the County of Lake auditor's office in June for inclusion in the homeowner's property tax bill. Non-homeowner's delinquent bills are turned over to a collection service for collection.

Permits and Regulatory Matters

The City operates its Sewer District under the discharge requirements issued to the City under waste discharge permit No. CA 98-207, issued by the California Regional Water Quality Control Board. The permit was issued in 1998 and has no expiration. The City is also subject to State Water Resources Control Board Order No. 2006-003 – Statewide General Waste Discharge Requirements for Sanitary Sewer Systems.

In April 2006, the City's sewer plant was overcome by flood waters from a series of storms and high lake levels which caused the facility to discharge treated wastewater into the stream and lake system. This resulted in a Notice of Violation and Cease and Desist Order from the California Regional Quality Control Board restricting new connections to the sewer system. The enforcement action requires the City to address current system deficiencies in a timely manner. The City expects that improvements to be financed with the CSCDA Series 2007A Bonds will bring the City's sewer plant into compliance with this order.

Existing Long-Term Obligations

The City currently has the following existing long-term obligations relating to the sewer system:

Sewer Revenue Bonds: The 1978 Revenue Bonds have annual principal and interest payments of approximately \$30,000 with interest payable semi-annually at a rate of 5%, due January 1 and July 1. The 1978 Revenue Bonds are secured by wastewater revenues and mature in 2018. A portion of the proceeds of the Bonds will be used to refund the outstanding 1978 Revenue Bonds.

Sewer District Improvement Bonds: \$5,196,270 Series 1993-1, USDA Rural Development, of which \$4,430,000 is outstanding as of July 1, 2007 (the "1993 Improvement Bonds"). The 1993 Improvement Bonds have annual principal and interest payments of approximately \$115,000, with interest payable semi-annually at a rate of 5%, due March 1 and September 1. The 1993 Improvement Bonds are secured by special assessments from the South Assessment District 91-1 area and mature in 2032. Wastewater revenues are not pledged to secure the 1993 Improvement Bonds.

Planned Capital Improvements

The City is developing a long-term capital improvement plan for the sewer system and has no planned improvements at this time.

Financial Information

A copy of the most recent audited financial statements of the City prepared by the City and audited by Nicholson & Olson, Certified Public Accountants, Roseville, California (the "Auditor") is included in Appendix A hereto (the "Financial Statements"). The letter of the Auditor concludes that the audited financial statements present fairly, in all material respects, the financial position of the City as of June 30, 2006 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United

States of America. The Financial Statements should be read in their entirety. The Auditor has not reviewed or audited this Official Statement.

Historic Operating Results and Debt Service Coverage. The following table is a summary of consolidated operating results of the enterprise funds related to the Sewer District for the fiscal years ending June 30, 2005 through 2007. The results have been derived from the audited financial statements of the City and are qualified in their entirety by reference to such statements, including the notes thereto. All results exclude certain non-cash items and include certain other adjustments. The Auditor has not reviewed or audited the summary operating results or any other portion of this Official Statement.

**City of Lakeport Sewer District
Summary of Historic Operating Results
Fiscal Years Ended June 30**

	<u>2005</u>	<u>2006</u>	<u>2007⁽¹⁾</u>
Revenues			
Service Charges	\$1,415,455	\$1,310,418	\$1,338,703
Connection/Expansion Fees	26,206	39,741	54,892
Interest Earnings	4,116	33,894	9,479
Other	<u>47,215</u>	<u>64,843</u>	<u>45,744</u>
Total Revenues	\$1,492,992	\$1,448,896	\$1,448,818
Expenses ⁽²⁾	\$1,372,639	\$1,355,488 ⁽³⁾	\$1,357,845
Sewer District Net Revenues	\$ 120,353	\$ 93,408 ⁽⁴⁾	\$ 90,973

(1) Derived from unaudited actual results for Fiscal Year 2006-07.

(2) Excludes debt service, depreciation and capital expenditures.

(3) Does not include one-time operating expenses of \$150,107 attributed to unpermitted discharge expenses such as pump and haul operation, attorney and engineering fees, employee overtime, and other professional services. See "Permits and Regulatory Matters" above.

Source: City of Lakeport.

Projected Operating Results and Debt Service Coverage. The City's projected consolidated operating results for the enterprise funds related to the System for the fiscal years ending June 30, 2008 through 2011 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the chart set forth below are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period will vary from those presented in the forecast and such variations may be material.

**City of Lakeport Sewer District
Projected Operating Results
Fiscal Years Ended June 30**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues					
Service Charges ⁽¹⁾	\$1,559,235	\$1,761,890	\$1,814,545	\$1,874,200	\$1,931,855
Connection/Expansion Fees	43,409	73,760	83,760	83,760	83,760
Interest Earnings	11,477	17,702	30,299	44,023	59,445
Other	<u>49,823</u>	<u>49,888</u>	<u>49,888</u>	<u>49,888</u>	<u>49,888</u>
Total Revenues	\$1,663,943	\$1,903,239	\$1,978,492	\$2,051,872	\$2,124,948
Expenses⁽²⁾					
	\$1,609,408	\$1,570,022	\$1,598,524	\$1,639,594	\$1,686,950
Sewer District Net Revenues	\$54,536	\$333,217	\$379,968	\$412,278	\$437,999
Debt Service					
1978 Revenue Bonds ⁽³⁾	\$21,950	\$ -	\$ -	\$ -	\$ -
CSCDA 2007A Revenue Bonds	<u>-</u>	<u>171,186</u>	<u>186,560</u>	<u>189,460</u>	<u>187,260</u>
Total Debt Service	\$21,950	\$171,186	\$186,560	\$189,460	\$187,260
Total Debt Service Coverage	2.48	1.95	2.04	2.18	2.34

⁽¹⁾ Rates for monthly sewer user charges will be raised by 25.19%, effective November 9, 2007, and another 5.55% effective July 1, 2008. See "Wastewater Rates" herein.

⁽²⁾ Excludes depreciation, capital expenditures and debt service. Assumes a 19% increase in operating expenses for Fiscal Year (FY) 2007/08, a 3% increase for FY 2008/09, a 2% increase for FY 2009/10, a 3% increase for FY 2010/11 and a 3% increase in 2011/12. Includes, for FY 2007/08, an estimated \$68,530 for repayment of the interim financing costs representing a portion of an interim loan from the City's Water and Redevelopment funds; in addition, includes approximately \$200,000 in Professional Services costs related to Cease and Desist work by the City, and also includes one additional person required for the monitoring program at a cost of \$34,080.

⁽³⁾ The remaining outstanding amount of 1978 Revenue Bonds will be refunded with proceeds of the CSCDA 2007A Revenue Bonds.

Source: City of Lakeport.

Debt Service Schedule

The following table shows the debt service requirements related to the City's Sewer District for the Bonds.

Annual Period Ending October 1	Principal	Interest	Annual Total
2008	-	\$102,405.78	\$102,405.78
2009	\$50,000.00	137,560.00	187,560.00
2010	55,000.00	135,560.00	190,560.00
2011	55,000.00	133,360.00	188,360.00
2012	60,000.00	131,160.00	191,160.00
2013	60,000.00	128,760.00	188,760.00
2014	65,000.00	126,360.00	191,360.00
2015	65,000.00	123,760.00	188,760.00
2016	70,000.00	121,160.00	191,160.00
2017	70,000.00	118,360.00	188,360.00
2018	75,000.00	115,560.00	190,560.00
2019	80,000.00	112,560.00	192,560.00
2020	80,000.00	109,360.00	189,360.00
2021	85,000.00	105,760.00	190,760.00
2022	90,000.00	101,935.00	191,935.00
2023	90,000.00	97,885.00	187,885.00
2024	95,000.00	93,835.00	188,835.00
2025	100,000.00	89,560.00	189,560.00
2026	105,000.00	85,060.00	190,060.00
2027	110,000.00	80,335.00	190,335.00
2028	115,000.00	75,385.00	190,385.00
2029	120,000.00	70,210.00	190,210.00
2030	125,000.00	64,570.00	189,570.00
2031	130,000.00	58,695.00	188,695.00
2032	135,000.00	52,585.00	187,585.00
2033	145,000.00	46,240.00	191,240.00
2034	150,000.00	39,425.00	189,425.00
2035	160,000.00	32,300.00	192,300.00
2036	165,000.00	24,700.00	189,700.00
2037	175,000.00	16,862.50	191,862.50
2038	180,000.00	8,550.00	188,550.00
Total	\$3,060,000.00	\$2,739,818.28	\$5,799,818.28

Litigation

Other than as described under "Permits and Regulatory Matters" above, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, threatened that may result in any material adverse change relating to the finances or operations of the City or the System.

Seismic Risks

The City is located in or near a seismically active region of California. The Sewer District and future planned capital improvements to the Sewer District have been or will be designed to meet all applicable seismic standards. However, there can be no assurance that seismic activity will not significantly damage the Sewer District or adversely affect the local economy.

Pension and OPEB Obligations

The City's pension obligations are described in Note 7 of the City's audited financial statements attached as Appendix A to this Official Statement. The City does offer other post-employment benefits. The City has not yet determined its OPEB actuarial liability.

Economic and Demographic Information for the City of Lakeport and the County of Lake

Population. The following tables show the rate of growth for the City and County, respectively, as of January 1, 2003 through January 1, 2007.

City of Lakeport Population as of January 1⁽¹⁾

2003	5,039
2004	5,067
2005	5,096
2006	5,096
2007	5,099

⁽¹⁾ 2000 DRU Benchmark.

Source: State of California, Department of Finance.

Lake County Population as of January 1⁽¹⁾

2003	61,691
2004	62,479
2005	63,097
2006	63,737
2007	64,276

⁽¹⁾ 2000 DRU Benchmark.

Source: State of California, Department of Finance.

Employment. The table below lists figures for the civilian labor force and comparative unemployment rates for 2003 through 2007.

**Lake County
Civilian Labor Force, Employment and Unemployment⁽¹⁾
(Annual Average)**

<u>Annual Average</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007*</u>
Labor Force	26,100	26,100	26,300	26,500	27,790
Employment	23,700	23,700	24,200	24,600	25,820
Unemployment	2,400	2,400	2,100	1,900	1,970
Unemployment Rate	9.1	9.1	7.9	7.1	7.1

⁽¹⁾ Not seasonally adjusted.

* Preliminary data as of August 2007.

Source: State of California, Employment Development Department.

Personal Income. The following table sets forth the per capita personal income in the County, the State and the nation for the years 2001 through 2005.

**Lake County
Personal Income
2001 through 2005**

<u>Year and Area</u>	<u>Per Capita Income</u>
<u>2001</u>	
Lake County	\$24,469
California	32,859
United States	30,562
<u>2002</u>	
Lake County	\$25,300
California	32,769
United States	30,795
<u>2003</u>	
Lake County	\$25,644
California	33,469
United States	31,466
<u>2004</u>	
Lake County	\$26,562
California	35,380
United States	33,090
<u>2005</u>	
Lake County	\$27,225
California	36,936
United States	34,471

Source: US Department of Commerce, Bureau of Economic Analysis.

Assessed Valuation. The following table shows the assessed valuations for the City from fiscal years 2002-03 through 2006-07.

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Rdv. Increment</u>	<u>Total After Rdv. Increment</u>
2003-04	\$300,731,910	\$0	\$22,250,539	\$322,982,449	\$293,036,248
2004-05	327,408,144	0	18,999,052	346,407,196	304,661,711
2005-06	361,094,755	0	20,801,874	381,896,629	322,633,996
2006-07	396,841,109	0	21,218,983	418,060,092	341,135,595
2007-08	427,866,976	0	22,096,881	449,963,857	359,415,021

Source: California Municipal Statistics, Inc.

Major Employers. The following table shows the major employers in the City for the fiscal year ending 2007, in order of number employed.

<u>Employer</u>	<u>Industry</u>	<u>Number Employed</u>
County of Lake	County Government	750
Lake County Office of Education	Education	350
Kmart	Department Stores	149
Bruno's Shop Smart	Grocery Stores	98
Evergreen Health Center	Convalescent Hospital	88
Safeway	Grocery Stores	82
City of Lakeport	City Government	63
TNT on the Lake	Restaurant	27
Park Place	Restaurant	26
Taco Bell	Restaurant	22
McDonald's	Restaurant	21
Grocery Outlet	Grocery Stores	20
Burger King	Restaurant	20
Kentucky Fried Chicken	Restaurant	15
Dollar Tree	Discount Store	14
Hillside Honda	Dealer	13
Coach Craft Auto Body	Auto Repair	13
	Total	1,771

Source: City of Lakeport.

The following table shows the major employers in the County of Lake.

**Lake County
Major Employers
(2007)
(In Alphabetical Order)**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Adobe Creek Packing Co Inc	Kelseyville	Fruits & Vegetables-Growers & Shippers
Adventist Health-Redbud	Clearlake	Hospitals
Bruno's	Lakeport	Grocers-Retail
Calpine Corp	Middletown	Co-Generation
Cardiopulmonary Care Ctr	Clearlake	Hospitals
Evergreen Lakeport Healthcare	Lakeport	Nursing & Convalescent Homes
Harbin Hot Springs	Middletown	Hot Springs
Hardester's Market & Hardware	Middletown	Grocers-Retail
Kmart	Lakeport	Department Stores
Konocti Harbor Resort & Spa	Kelseyville	Resorts
Konocti Vista Casino	Lakeport	Casinos
Konocti Vista Casino Resort	Lakeport	Hotels & Motels
Lake County Social Svc Dept	Lower Lake	County Government-Social/Human Res.
Mariani Dryers	Kelseyville	Fruit Drying
Meadowood Nursing Ctr	Clearlake	Nursing & Convalescent Homes
Minnie Cannon Community School	Middletown	Schools
Redbud Community Hospital	Clearlake	Hospitals
Robinson Rancheria Bingo	Upper Lake	Bingo Games
Safeway	Clearlake	Grocers-Retail
Scully Packing Co Llc	Finley	Fruits & Vegetables-Growers & Shippers
Shannon Ranches Inc	Clearlake Oaks	Vineyards
Snows Lake Ranch	Lower Lake	Vineyards
Sutter Lakeside Hospital	Lakeport	Hospitals
Twin Pine Casino	Middletown	Restaurants
Wal-Mart	Clearlake	Department Stores

Source: 2007 America's Labor Market Information System (ALMIS) Employer Database.

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APPENDIX C

DEFINITIONS AND SUMMARY OF LEGAL DOCUMENTS

The following is a brief summary of certain of the definitions and provisions of the Indenture and the Installment Purchase Agreements. Except where indicated, Installment Purchase Agreements are substantially similar and their terms are collectively summarized in this Appendix. This summary is not intended to be comprehensive or definitive, and reference is made to the actual documents for the complete terms thereof.

DEFINITIONS

The following are summaries of certain of the definitions in the Indenture and the Installment Purchase Agreements. This summary is not intended to be comprehensive or definitive, and reference is made to the actual documents for the complete terms thereof.

Agreement

The term "Agreement" means the Installment Purchase Agreements, by and between the Participants and the Authority, as originally executed and as such may from time to time be amended or supplemented.

Annual Debt Service

The term "Annual Debt Service" means, for any Fiscal Year, the sum of (1) the interest accruing on all Parity Debt during such Fiscal Year, assuming that all Parity Debt is retired as scheduled, plus (2) the principal amount (including principal due as sinking fund installment payments) allocable to all Parity Debt in such Fiscal Year, calculated as if such principal amounts were deemed to accrue daily during such Fiscal Year in equal amounts from, in each case, each payment date for principal or the date of delivery of such Parity Debt (provided that principal shall not be deemed to accrue for greater than a 365-day period prior to any payment date), as the case may be, to the next succeeding payment date for principal, *provided*, that the following adjustments shall be made to the foregoing amounts in the calculation of Annual Debt Service:

(A) with respect to any such Parity Debt bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Annual Debt Service shall be (i) with respect to such Parity Debt then outstanding, one hundred ten per cent (110%) of the greater of (1) the daily average interest rate on such Parity Debt during the twelve (12) calendar months next preceding the date of such calculation (or the portion of the then current Fiscal Year that such Parity Debt has borne interest) or (2) the most recent effective interest rate on such Parity Debt prior to the date of such calculation or (ii) with respect to such Parity Debt then proposed to be issued, the then current 20-Bond GO Index rate as published in The Bond Buyer (or if The Bond Buyer or such index is no longer published, such other published similar index);

(B) with respect to any such Parity Debt having twenty-five per cent (25%) or more of the aggregate principal amount thereof due in any one Fiscal Year, Annual Debt Service shall be calculated for the Fiscal Year of determination as if the interest on and principal of such Parity Debt were

being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty (20) years from the date of such Parity Debt provided, however that the full amount of such Parity Debt shall be included in Annual Debt Service if the date of calculation is within 24 months of the actual maturity of the payment;

(C) with respect to any such Parity Debt or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Debt or portions thereof, such accreted discount shall be treated as due when scheduled to be paid;

(D) Annual Debt Service shall not include interest on Parity Debt which is to be paid from amounts constituting capitalized interest;

(E) if an interest rate swap agreement is in effect with respect to, and is payable on a parity with, any Parity Debt to which it relates, no amounts payable under such interest rate swap in excess of debt service payable under such Parity Debt agreement shall be included in the calculation of Annual Debt Service unless the sum of (i) the interest payable on such Parity Debt, plus (ii) the amounts payable by the Participant under such interest rate swap agreement, less (iii) the amounts receivable by the Participant under such interest rate swap agreement, are greater than the interest payable on such Parity Debt, in which case the amount of such payments to be made that exceed the interest to be paid on such Parity Debt shall be included in such calculation, and for this purpose, the variable amount under any such interest rate swap agreement shall be determined in accordance with the procedure set forth in subparagraph (A) of this definition; and

(F) Repayment Obligations proposed to be entered into as Parity Debt shall be deemed to be payable at the scheduled amount due under such Repayment Obligation as calculated under this definition.

Authorized Investments

"Authorized Investments" means any of the following obligations which at the time of investment are legal investments of funds of the Participants under the laws of the State of California for the money proposed to be invested under the Indenture:

(1) (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations") (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated. These include, but are not necessarily limited to:

U.S. Treasury obligations
All direct or fully guaranteed obligations

Farmers Home Administration
Certificates of beneficial ownership

General Services Administration
Participation certificates

U.S. Maritime Administration
Guaranteed participation certificates
Guaranteed pool certificates

Government National Mortgage Association (GNMA)
GNMA-guaranteed mortgage-backed securities
GNMA-guaranteed participation certificates

U.S. Department of Housing & Urban Development
Local authority bonds

Washington Metropolitan Area Transit Authority
Guaranteed transit bonds

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

-Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts)

Senior debt obligations

-Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system wide bonds and notes

-Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations

-Federal National Mortgage Association (FNMA)
Senior debt obligations
Mortgage-backed securities (excluding stripped mortgages securities which are purchased at prices exceeding their principal amounts)

-Student Loan Marketing Association (SLMA)
Senior debt obligations (excluding securities that do not have a fixed par value and/or the terms of which do not promise a fixed dollar amount at maturity or call date)

-Financing Corporation (FICO)
Debt obligations

-Resolution Funding Corporation (REFCORP)
Debt obligations

(4) Unsecured certificates of deposit, deposit accounts, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by Standard & Poor's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

(7) Money market funds rated "AAm" or "AAm-G" by Standard & Poor's, or better, including funds which the Trustee or an affiliate manages, sponsors and advises.

(8) Repurchase agreements with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by S&P and Moody's and acceptable to the Bond Insurer, provided that:

- A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P to maintain an "A" rating in an "A" rated structured financing (with a market value approach);
- B. The Trustee or a third party acting solely as agent therefor or for the Authority (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);
- C. The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- D. All other requirements of S&P in respect of repurchase agreements shall be met;

- E. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Authority or the Trustee (who shall give such direction if so desired by the Bond Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Authority or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (A) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

- (9) State Obligations, which means:

(i) Direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by Standard & Poor's, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(ii) Direct, general short-term obligations of any state agency or subdivision described in (a) above and rated "A-1+" by Standard & Poor's and "Prime-1" by Moody's.

(iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated "AA" (without regard to subcategories) or better by Standard & Poor's and "Aa" (without regard to subcategories) or better by Moody's.

(10) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA"(without regard to subcategories) by S&P and "Aa" (without regard to subcategories) by Moody's; *provided* that, by the terms of the investment agreement:

- A. interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the Project Fund, construction draws) on the Bonds;
- B. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Authority and the Trustee agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
- C. the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks *pari passu* with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

- D. the Authority or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Authority and the Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and an opinion of foreign counsel (if applicable, which opinion shall be addressed to the Authority and the Bond Insurer) in form and substance acceptable to the Bond Insurer and addressed to the Authority and the Bond Insurer;
- E. the investment agreement shall provide that if during its term
- i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrue but unpaid interest on the investment, and
 - ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Authority or the Trustee (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority or Trustee;
- F. the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- G. the investment agreement must provide that if during its term:
- i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Authority or the Trustee (who shall give such direction if so directed by the Bond Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate, and

- ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or Trustee, as appropriate.

(11) Pre-funded municipal obligations rated "AAA" by Standard & Poor's and "Aaa" by Moody's meeting the following requirements:

- (i) the municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

- (ii) the municipal obligations are secured by cash or United States Treasury obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

- (iii) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");

- (iv) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

- (v) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury obligation and upon delivery of a new Verification; and

- (vi) the cash or the United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(12) Subject to the prior written consent of the Bond Insurer, local California agency investment pools, so long as such pool is rated in one of the two highest rating categories by S&P and Moody's.

(13) The Local Agency Investment Fund administered by the State of California.

Information Services

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Standard & Poor's J.J. Kenny Information Services' "Called Bond Service," 55 Water Street, 45th Floor, New York, New York 10041; Moody's "Municipal and Government," 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, Attention: Municipal News Reports; and any other service providing information with respect to called bonds that the Authority may designate in writing to the Trustee.

Installment Payments

"Installment Payments" means the installment payments due under the Installment Purchase Agreements.

Maximum Annual Debt Service

The term "Maximum Annual Debt Service" means, as of any date of calculation, the largest Annual Debt Service during the period from the date of such calculation through the final maturity date of all Parity Debt.

Net Proceeds

The term "Net Proceeds" means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

Operation and Maintenance Costs

The term "Operation and Maintenance Costs" means the reasonable and necessary costs paid or incurred by the Participant for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, and including all administrative costs of the Participant that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the Participant or charges required to be paid by it to comply with the terms of the Agreement or of any Supplemental Agreement or of any resolution authorizing the execution of any Parity Debt, such as compensation, reimbursement and indemnification of the Trustee and the Authority and fees and expenses of Independent Certified Public Accountants; but excluding in all cases (i) payment of Parity Debt and Subordinate Obligations, (ii) costs of capital additions, replacements, betterments, extensions or improvements which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

Outstanding

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds issued and delivered hereunder except--

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds paid or deemed to have been paid within the meaning of the Indenture in respect to the discharge of the Bonds; and
- (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant to the Indenture.

Parity Debt

The term "Parity Debt" means the Installment Payments and any Parity Obligations.

Parity Obligation Payments

The term "Parity Obligation Payments" means the payments scheduled to be paid by the Participant under and pursuant to the Parity Obligations, which payments are secured by a pledge of System Net Revenues on a parity with the Installment Payments.

Parity Obligations

The term "Parity Obligations" means all obligations of the Participant authorized and executed by the Participant other than the Installment Payments, the Parity Obligation Payments under which are secured by a pledge of the System Net Revenues on a parity with the Installment Payments, including but not limited to any Repayment Obligations secured by System Net Revenues on a parity with the Installment Payments (for the City of Anderson, Parity Obligations shall include, as a result of the secondary pledge of System Revenues, payments due with respect to Riverside East Limited Obligation Improvement Bonds).

Prior Liens

The term "Prior Liens" means those liens, if any, on the System Revenues which are senior to the pledge under the Agreement.

Program Participant or Participant

"Program Participant" or "Participant" means the public agencies, individually, obligated to pay the Installment Payments under the respective Installment Purchase Agreements.

Project

"Project" means the public capital improvements of the Participants financed or refinanced under the Installment Purchase Agreements.

Purchase Price

"Purchase Price" means the principal amount plus interest thereon owed by the Participant to the Authority under the terms of the Agreement.

Record Date

"Record Date" means the close of business on the 15th day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

Repayment Obligation

"Repayment Obligation" means the reimbursement obligation or any other payment obligation under a written agreement between the Participant and a credit provider to reimburse the credit provider

for amounts paid pursuant to a credit facility for the payment of the principal amount or purchase price of and/or interest on any Parity Debt.

Reserve Account

"Reserve Account" means the accounts established within the Reserve Fund relating to the obligations under each separate Installment Purchase Agreements.

Reserve Account Requirement

The term "Reserve Account Requirement" means the amount required to be on deposit in each Reserve Account as provided in the Indenture; *provided*, that notwithstanding any provision hereof to the contrary, all or any portion of the Reserve Account Requirement for any Reserve Account may (following written notification to the rating agencies then rating the Bonds) be satisfied by the provision of a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, which, together with money on deposit in such Reserve Account, provide an aggregate amount equal to the Reserve Account Requirement, so long as (i) the provider of any such policy of insurance, surety bond, letter of credit or other comparable credit facility is rated in one of the two highest rating categories (at all times) by Moody's and by S&P, (ii) in the case of a substitution of cash for a credit facility, the Trustee has received an opinion of counsel of recognized standing in the field of law relating to municipal bonds substantially to the effect that such substitution is authorized or permitted under the Indenture and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, (iii) if such credit facility is not an irrevocable surety bond in the highest rating category of both Moody's and S&P, the Trustee has received written confirmation from Moody's and S&P that such substitution will not cause a lowering or withdrawal of any ratings on the Bonds, and (iv) the Trustee has received an opinion of counsel to the effect that the credit facility to be substituted is a valid, binding and legally enforceable obligation; and *provided further*, that in the event that any previously funded cash portion of the Reserve Account Requirement is satisfied by the provision of such a policy of insurance, surety bond, letter of credit or other comparable credit facility, or a combination thereof, the amount of money then in such Reserve Account equal to the portion of the Reserve Account Requirement then being satisfied by such credit facility shall (upon receipt of a Written Request of the related Participant) be withdrawn by the Trustee from such Reserve Account and transferred to the related Participant.

Reserve Fund

"Reserve Fund" means the fund by that name that is held by the Trustee.

Revenues

"Revenues" means all Installment Payments received or receivable by the Authority.

Securities Depositories

"Securities Depositories" The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as designated by the Trustee.

Subordinate Obligations

"Subordinate Obligations" means the obligations of the Participant that are subordinate in payment to the Installment Payments.

Supplemental Agreement

"Supplemental Agreement" means any agreement then in full force and effect which has been entered into by the Participant and the Trustee, amendatory of or supplemental to the Agreement; but only if and to the extent that such Supplemental Agreement is specifically authorized under the Agreement.

System or Systems

"System" or "Systems" means the whole and each and every part of the water and/or wastewater system of the Participant, including the portion thereof existing on the date of the Agreement, and including all additions, betterments, extensions and improvements to such system or any part thereof and hereafter acquired or constructed.

System Net Revenues

"System Net Revenues" means for any period System Revenues less Operation and Maintenance Costs for such period; *provided* that certain adjustments in the amount of System Net Revenue deemed collected during a Fiscal Year may be made in connection with amounts deposited in the Rate Stabilization Fund.

System Revenues

"System Revenues" means all gross income and revenue received or receivable by the Participant from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, including all fees (including connection fees), rates, charges and all amounts paid under any contracts received by or owed to the Participant in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System and all other income and revenue howsoever derived by the Participant from the ownership or operation of the System or arising from the System, subject to and after satisfaction of any Prior Liens (for the City of Anderson, System Revenues shall include assessments collected for the Riverside East Limited Obligation Improvement Bonds).

SUMMARY OF INDENTURE

The following is a summary of certain of the provisions of the Indenture. This summary is not intended to be comprehensive or definitive, and reference is made to the actual document for the complete terms thereof.

Procedure for Amendment of the Indenture. The Indenture and the rights and obligations of the Authority and of the Owners under the Indenture and any Installment Purchase Agreement and the rights and obligations of the Participant and Authority under the Indenture may be amended at any time by a Supplemental Indenture or Supplemental Agreement which shall become binding when the written consents of the Owners of at least sixty per cent (60%) in aggregate principal amount of the Bonds then

Outstanding (exclusive of Bonds disqualified as provided in the Indenture) and the written consent of the Bond Insurer are filed with the Trustee; *provided* that so long as the Municipal Bond Insurance Policy is in effect, the Bond Insurer may give consent to amendments in place of the Owners of the Bonds. No such amendment shall (1) extend the maturity of or reduce the interest rate on, or otherwise alter or impair the obligation of the Authority to pay the interest or principal or redemption premium, if any, of any Bond or reduce the scheduled Installment Payments to come due, without the express written consent of the Owner of the affected Bond, or (2) permit the creation by the Authority of any mortgage, pledge or lien upon the Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds or (3) permit the creation by any Participant of any mortgage, pledge or lien upon the System Revenues (as defined in the Installment Purchase Agreements) superior to or on a parity with the pledge and lien created by an Installment Purchase Agreement, (4) reduce the percentage of Bonds required for the written consent to any such amendment, or (5) modify the rights or obligations of the Trustee without its prior written assent thereto.

The Indenture and the rights and obligations of the Authority and of the Owners and any Installment Purchase Agreement and the rights and obligations of the Participant and the Authority thereunder may also be amended at any time by a Supplemental Indenture or Supplemental Agreement which shall become binding upon execution, without the consent of any Owners but only to the extent permitted by law and only for any one or more of the following purposes:

(a) To add to the agreements and covenants of the Authority or a Participant other agreements and covenants thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Authority or the Participant;

(b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision, or in regard to questions arising thereunder, as the Authority or a Participant may deem necessary or desirable and not inconsistent therewith, and which shall not materially adversely affect the interests of the Owners of the Outstanding Bonds;

(c) To modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds;

(d) To maintain the exclusion under the Code of interest on the Bonds from gross income for federal income tax purposes;

(e) To the extent necessary to maintain any then existing rating by Moody's (if Moody's is then rating the Bonds) or S&P (if S&P is then rating the Bonds) or in connection with placing a credit facility in the Reserve Fund; or

(f) For any other purpose that does not materially adversely affect the interests of the Owners of the Outstanding Bonds.

Events of Default and Acceleration of Maturities. If one or more of the following events (an "Event of Default") shall happen, that is to say:

(a) If default shall be made in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable; or

(b) If default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on or of any Sinking Fund Installment for any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise; or

(c) If an Event of Default shall occur under one of the Installment Purchase Agreements;

then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written request of the Owners of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding, shall, by notice in writing to the Authority, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything contained in the Indenture or in the Bonds to the contrary notwithstanding; *provided*, any such declaration shall be limited to those Bonds corresponding in principal amount and maturity date to the principal components of delinquent Installment Payments related to such default (Bonds to be selected by lot within a maturity if necessary); *provided further*, that any such declaration shall be subject to the prior written consent of the Bond Insurer; and *provided further* that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the expenses of the Trustee, including attorneys' fees, together with interest on any such amounts advanced as provided in the Indenture, and any and all other defaults known to the Trustee (other than in the payment of interest and principal on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured or provision shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; except that no such rescission or annulment shall occur without the prior written consent of the Bond Insurer, and no such rescission or annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Discharge of Bonds. If there shall be paid, to the Owners of all or a portion of the Outstanding Bonds the interest thereon and principal thereof and redemption premiums, if any, thereon at the times and in the manner stipulated therein and in the Indenture, then the owners of such Bonds shall cease to be entitled to the pledge of Revenues as provided in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Any Outstanding Bonds for the payment of which money shall have been set aside to be held in trust by the Trustee for such payment at the maturity or redemption date thereof shall be deemed, as of the date of such setting aside, to have been paid.

SUMMARY OF THE INSTALLMENT PURCHASE AGREEMENTS

The following is a collective summary of certain of the terms of the Installment Purchase Agreements. This summary is not intended to be comprehensive or definite, and reference is made to the actual documents for the complete terms thereof.

Changes to the Project. The Participant may at any time substitute other public capital improvements for the then-existing components of the Project by submitting a Written Request of the Participant to the Authority and the Trustee specifying the components of the Project to be substituted and the new components.

Covenant Against Encumbrances. The Participant will not mortgage or otherwise encumber, pledge or place any charge upon any of the System Net Revenues except as provided in the Agreement, and will not issue any obligations secured by System Net Revenues senior to the Parity Debt; *provided*, that the Participant may at any time issue any Subordinate Obligations.

Covenant Against Sale or Other Disposition of the System. Except as provided in the Indenture, the Participant will not sell or otherwise dispose of the System or any part thereof essential to the proper operation of the System or to the maintenance of the System Net Revenues, unless the Installment Payments have been fully paid or provision has been made therefor. The Participant will not enter into any lease or agreement which impairs the operation of the System or any part thereof necessary to secure adequate System Net Revenues for the payment of the Installment Payments, or which would otherwise impair the rights of the Owners with respect to the System Net Revenues or the operation of the System.

Covenant Regarding Maintenance and Operation of System. The Participant will maintain and preserve the System in good repair and working order at all times and will operate the System in an efficient and economical manner.

Insurance. The Participant will procure and maintain at all times insurance on the System against such risks (including accident to or destruction of the System) as are usually insured in connection with operations similar to the System and, to the extent such insurance is available for reasonable premiums from a reputable insurance company, such insurance shall be adequate in amount and, as to the risks insured against, shall be maintained with responsible insurers; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

The Participant shall procure and maintain or cause to be procured and maintained public liability insurance covering claims against the Participant (including its directors, officers and employees) for bodily injury or death, or damage to property occasioned by reason of the Participant's operations, including any use of the System, and such insurance shall afford protection in such amounts as are usually covered in connection with operations similar to the System; *provided*, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

If all or any part of the System shall be damaged or destroyed, the Net Proceeds realized by the Participant therefrom shall be deposited by the Participant with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the Participant to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the Participant first secures and files with the Trustee a Certificate of the Participant showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the Participant by reason of such damage or destruction, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the Participant from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the Participant, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such damage or destruction so that the ability of the Participant to pay Installment Payments when due will not be substantially impaired, and such Certificate of the Participant shall be final and conclusive, and any balance of such proceeds not required by the Participant for such purpose shall be deposited in the System Revenue Fund; *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Installment Payments as they come due and Parity Obligation Payments as they shall become due; *provided further* that the foregoing procedures for the application of Net Proceeds shall be subject to any similar provisions for Parity Debt on a pro rata basis.

If such damage or destruction has had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Installment Payments, and a Certificate of the Participant to such effect has been filed with the Trustee, then the Participant shall forthwith deposit such proceeds in the System Revenue Fund.

Eminent Domain Proceeds. If all or any part of the System shall be taken by eminent domain proceedings, the Net Proceeds realized by the Participant therefrom shall be deposited by the Participant with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the Participant to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the Participant first secures and files with the Trustee a Certificate of the Participant showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the Participant by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the Participant from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the Participant, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such eminent domain proceedings so that the ability of the Participant to pay Installment Payments when due will not be substantially impaired, and such Certificate of the Participant shall be final and conclusive, and any balance of such proceeds not required by the Participant for such purpose shall be deposited in the System Revenue Fund, *provided*, that if the foregoing conditions are not met, then such proceeds shall be deposited with the Trustee and applied to make Installment Payments as they come due and Parity Obligation Payments as they shall become due *provided further* that the foregoing procedures for the application of Net Proceeds shall be subject to any similar provisions for Parity Debt on a pro rata basis.

If such eminent domain proceedings have had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Installment Payments, and a Certificate of the Participant to such

effect has been filed with the Trustee, then the Participant shall forthwith deposit such proceeds in the System Revenue Fund.

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say --

(1) if default shall be made by the Participant in the due and punctual payment of any Installment Payment or any Parity Debt when and as the same shall become due and payable;

(2) if default shall be made by the Participant in the performance of any of the other agreements or covenants required in the Agreement to be performed by it, and such default shall have continued for a period of thirty (30) days after the Participant shall have been given notice in writing of such default by the Authority, the Bond Insurer or the Trustee; *provided* that such default shall not constitute an Event of Default, if the Participant shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time, *provided*, such period shall not extend beyond a total of 90 days except with the prior consent of the Bond Insurer;

(3) if the Participant shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Participant seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Participant or of the whole or any substantial part of its property; or

(4) if payment of the principal of any Parity Debt is accelerated in accordance with its terms;

then and in each and every such case during the continuance of such Event of Default specified in clauses (3) and (4) above, the Authority shall, and for any other such Event of Default the Authority may, by notice in writing to the Participant, declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable; *provided* that any such declaration of acceleration shall be subject to the prior written consent of the Bond Insurer. This paragraph, however, is subject to the condition that if at any time after the entire principal amount of the unpaid Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the Participant shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Installment Payments or the unpaid payment of any other Parity Debt referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Installment Payments or such other Parity Debt if paid in accordance with their terms, and the reasonable expenses of the Authority and the Bond Insurer, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority and the Bond Insurer

or provision deemed by the Authority and the Bond Insurer to be adequate shall have been made therefor, then and in every such case the Authority and the Bond Insurer, by written notice to the Participant, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Amendments. The Agreement may only be amended in accordance with the terms of the Indenture.

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APPENDIX D

FORM OF BOND COUNSEL'S OPINION

Upon the delivery of the Bonds, Hawkins Delafield & Wood LLP, San Francisco, California, Bond Counsel to the Authority, proposes to render a final approving opinion in substantially the following form:

_____, 2008

California Statewide Communities Development Authority
Sacramento, California 95814

\$4,660,000
California Statewide Communities Development Authority
Wastewater Revenue Bonds
Series 2007A

Members of the Governing Board:

We have acted as Bond Counsel in connection with the issuance by the California Statewide Communities Development Authority (the "Authority") of \$4,660,000 aggregate principal amount of California Statewide Communities Development Authority Wastewater Revenue Bonds, Series 2007A (the "Bonds") under and pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Law"), and under and pursuant to the Indenture, dated as of December 1, 2007 (the "Indenture"), by and between the Authority and Union Bank of California, as trustee (the "Trustee").

We have reviewed originals or copies identified to our satisfaction as being true copies of the Indenture and certain other records of the Authority. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of Authority officers furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after the examination described above and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth above, we are of the opinion that:

1. The Authority has lawful authority under the Law to enter into the Indenture, and the Authority has duly authorized, executed and delivered the Indenture and, assuming due authorization, execution and delivery by the respective other parties thereto, the Indenture is a legal, valid and binding obligation of the Authority enforceable in accordance with its terms. The Indenture creates a valid pledge of the Revenues (as defined in the Indenture), subject to the provisions thereof permitting the application thereof for the purposes and on the terms and conditions set forth therein.

2. The Authority has lawful authority to issue the Bonds and the Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Law and the Indenture. The Bonds constitute legal, valid and binding special obligations of the Authority payable solely from Revenues (as defined in the Indenture) and amounts on deposit in certain funds and accounts held under the Indenture. The Bonds are not an obligation of the

State of California, any public agency thereof (other than the Authority payable solely from the Revenues), the Participants (as defined under the Indenture) or any member of the Authority; and neither the faith and credit nor the taxing powers of the State of California or any public agency thereof or any member of the Authority is pledged for the payment of the Bonds. The Authority has no taxing power.

3. Under existing statutes and court decisions, interest on the Bonds is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest on the Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. In rendering the opinions in this paragraph 3, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificate delivered on the date hereof by the Authority and the Participants with respect to the use of proceeds of the Bonds and the investment of certain funds, and other matters affecting the non-inclusion of interest on the Bonds in gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Authority and the Participants with procedures and covenants set forth in the Tax Certificate and with the tax covenants set forth in the Indenture as to such matters. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

4. In addition, we are further of the opinion that, under existing statutes, interest on the Bonds is exempt from State of California personal income taxes.

Except as stated in paragraphs 3 and 4 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under State and local tax law.

The opinions expressed herein are based upon our analysis and interpretation of laws, regulations, rulings and judicial decisions as they exist on the date hereof and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

We render our opinion under existing statutes and court decisions as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason.

Respectfully submitted,

APPENDIX E

FORM OF MUNICIPAL BOND INSURANCE POLICY

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**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent" for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Counter signature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

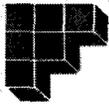
By _____

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
3 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)



**FINANCIAL
SECURITY
ASSURANCE®**

**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

BONDS:

Policy No. -N

Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 660NY (CA 1/91)

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APPENDIX F

INFORMATION CONCERNING DTC

The information in this Appendix F concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and the Authority takes no responsibility for the completeness or accuracy thereof. The Authority cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "FICC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org; nothing contained in such websites is incorporated into this Official Statement.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds by the Authority will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds for the Beneficial Owners.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The

Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE AUTHORITY, THE PARTICIPANTS OR THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR PREPAYMENT.

None of the Authority, the Participants or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this appendix concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

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APPENDIX G

FORMS OF CONTINUING DISCLOSURE CERTIFICATES

FORM OF PARTICIPANT CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the _____ (the "Participant"), dated January 3, 2008 in connection with the issuance of \$4,660,000 California Statewide Communities Development Authority Wastewater Revenue Bonds, Series 2007A (the "Bonds"). The Bonds are being issued pursuant to the Indenture, dated as of December 1, 2007 (the "Indenture"), by and between the California Statewide Communities Development Authority and Union Bank of California, N.A., as trustee (the "Trustee"). The Participant has entered into an Installment Purchase Agreement, dated as of December 1, 2007 (the "Installment Purchase Agreement") with the Authority. Under the Installment Purchase Agreement the Participant will pay Installment Payments (the "Installment Payment") which will secure in part the Bonds. The Participant covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Participant for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Participant pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean Union Bank of California, N. A., or any successor Dissemination Agent designated in writing by the Participant and which has filed with the Participant a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated December 18, 2007.

"Participating Underwriter" shall mean the original purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Participant shall, or shall cause the Dissemination Agent to, not later than 210 days after the end of the Participant's fiscal year (presently such fiscal year ends June 30), commencing with the report for the fiscal year ending June 30, 2007, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the Participant may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Participant's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the Participant shall provide the Annual Report to the Dissemination Agent (if other than the Participant). If the Participant is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Participant shall send a notice to each Repository in substantially the form attached as EXHIBIT A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the Name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Participant), file a report with the Participant certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Participant's Annual Report shall contain the CUSIP numbers of the Bonds and contain or include by reference the:

1. The audited financial statements of the Participant for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the

Participant's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Updates for the last fiscal year of the information in the following tables from the Section relating to the Participant in Appendix B to the Official Statement presented in substantially the same format as such tables (to the extent the Official Statement contains accurate information regarding the fiscal year covered by an Annual Report, no update shall be necessary):

(a) Number of Connections as shown on page __ of the Official Statement;

(b) Revenues by Class of User as shown on page __ of the Official Statement;

(c) Largest Users as shown on page __ of the Official Statement (this information is only required to the extent the revenues generated by one or more users constitutes 3% or more of the Participant's annual System revenue); and

(d) Results for the most recent fiscal year presented in the same format as the Projected Operating Results as shown on page __ of the Official Statement (no updates of projections are required).

[(e) For the City of Anderson, a description of delinquencies that exceed two percent (2%) in the aggregate of the annual assessments for the Riverside East Assessment District.]

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Participant or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Participant shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Participant shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Installment Purchase Agreement or its obligations in relation to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults; and
3. adverse tax opinions or events affecting the tax-exempt status of the Bonds.

(b) Whenever the Participant obtains knowledge of the occurrence of a Listed Event, the Participant shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Participant determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Participant shall promptly file a notice of such occurrence with the Repositories.

SECTION 6. Use of Central Post Office. The Participant may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 7. Termination of Reporting Obligation. The Participant's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Installment Payments. If such termination occurs prior to the final maturity of the Bonds, the Participant shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The Participant hereby appoints Union Bank of California, N.A. to serve as the Dissemination Agent hereunder. The Participant may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Participant pursuant to this Disclosure Certificate.

Upon request, the Dissemination Agent shall provide copies of the Annual Report to the Authority and/or the Underwriter.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Participant from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Participant chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Participant shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Participant acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Participant, and that under some circumstances compliance with this Disclosure

Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Participant under such laws.

SECTION 10. Default. In the event of a failure of the Participant to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Holder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Participant satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Participant shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Participant agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Participant under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Participant may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived with the consent of the Authority, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Participant shall describe such amendment in the same manner as for a Listed Event under Section 5(c).

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Participant, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

[PARTICIPANT]

By _____
Authorized Officer

Acknowledged as to Duties as Dissemination Agent:

UNION BANK OF CALIFORNIA, N.A.

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: [Participant]

Name of Bond Issue: California Statewide Communities Development Authority
Wastewater Revenue Bonds, Series 2007A

Date of Issuance: _____, 2007

NOTICE IS HEREBY GIVEN that an Annual Report with respect to the above-named Bonds was not released by the Participant by the date required in the Continuing Disclosure Certificate. [The Participant anticipates that the Annual Report will be filed by _____.]

Dated: _____

[Participant]

By [form only; no signature required]

FORM OF AUTHORITY CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the California Statewide Communities Development Authority (the "Authority"), dated January __, 2008, in connection with the issuance of \$4,660,000 California Statewide Communities Development Authority Wastewater Revenue Bonds, Series 2007A (the "Bonds"). The Bonds are being issued pursuant to the Indenture, dated as of December 1, 2007 (the "Indenture"), by and between the California Statewide Communities Development Authority and Union Bank of California, N.A., as trustee (the "Trustee"). The Participants (as defined under the Indenture) have entered into Installment Purchase Agreements, dated as of December 1, 2007 (the "Installment Purchase Agreements") with the Authority. Under the Installment Purchase Agreements the Participants will pay Installment Payments (the "Installment Payments") which will secure in part the Bonds. The Authority covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean Union Bank of California, N.A., or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated December 18, 2007.

"Participating Underwriter" shall mean the original purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 3, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform; and
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Authority determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 4. Use of Central Post Office. The Authority may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the SEC or SEC staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the

SEC staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the SEC staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 5. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Installment Payments. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

SECTION 6. Dissemination Agent. The Authority hereby appoints Union Bank of California, N.A. to serve as the Dissemination Agent hereunder. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Certificate.

SECTION 7. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Holder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Authority satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Authority shall have refused to comply therewith within a reasonable time.

SECTION 8. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived with the consent of the Authority, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Authority shall describe such amendment in the same manner as for a Listed Event under Section 3(c).

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY

By _____
Member of the Commission

Acknowledged as to Duties as Dissemination Agent:

UNION BANK OF CALIFORNIA, N.A.

By _____
Authorized Officer

The execution and delivery of this Official Statement have been duly authorized by the Authority and the Program Participants.

**CALIFORNIA STATEWIDE
COMMUNITIES DEVELOPMENT
AUTHORITY**

By: *D. B. Hamman*
Member of the Commission

CITY OF ANDERSON

By: _____
City Manager

CITY OF LAKEPORT

By: _____
City Manager

The execution and delivery of this Official Statement have been duly authorized by the Authority and the Program Participants.

**CALIFORNIA STATEWIDE
COMMUNITIES DEVELOPMENT
AUTHORITY**

By: _____
Member of the Commission

CITY OF ANDERSON

By: Scott Morgan
City Manager

CITY OF LAKEPORT

By: _____
City Manager

The execution and delivery of this Official Statement have been duly authorized by the Authority and the Program Participants.

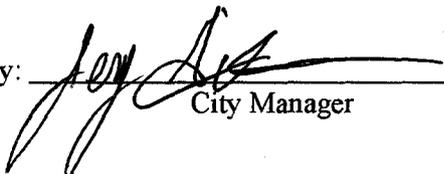
**CALIFORNIA STATEWIDE
COMMUNITIES DEVELOPMENT
AUTHORITY**

By: _____
Member of the Commission

CITY OF ANDERSON

By: _____
City Manager

CITY OF LAKEPORT

By:  _____
City Manager